

Vehicular Emission Test Trust Fund of the Department of Motor Traffic - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Vehicular Emission Test Trust Fund of the Department of Motor Traffic for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, the statement of financial performance, statement of changes in equity, cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation -----	Management Comment -----	Recommendation -----
(i) The Fund had obtained water, electricity and office facilities from the Department of Motor Traffic and due to non-payment of water charges, electricity charges and office rent to the Department of Motor Traffic the expenses applicable to the year under review has not been properly accounted. However, in the 2022 budget estimates, an allocation of Rs.1 million has been allocated for water and electricity.	Since no proper method has been identified for making these payments, in the future we will discuss with the department officials and work according to a correct method.	All expenses related to the year should be properly identified and included in the financial statements.
(ii) Three officers of the Department of Motor Traffic have been employed in the full-time service of the fund, and the salary and remuneration paid by the Department of Motor Traffic during the year under review in respect of those three officers has been accounted as Rs.2.122 million expenditure of the Emissions Fund and paid to the Motor Transport Department. The fund's surplus for the year under review was overstated due to non-repayment.	Officers working under the Department of Motor Traffic have been assigned to the Emissions Trust Fund to maintain the relationship between the fund and the Department of Motor Traffic. As they are permanent officers of the Department of Motor Traffic, they have been paid by the Department itself.	All expenses related to the year should be properly identified and included in the financial statements.
(iii) Although, the cab bearing registration number PC-4948 held by the fund was duly handed over to the Department of Motor Traffic on 13 December 2020, the cost and accumulated depreciation of Rs.5.080	That the cost and accumulated depreciation relating to the vehicle bearing PC-4948 be removed from the books of accounts.	Accounts should be complied with accounting standards and generally accepted accounting principles.

million had not been removed from the books of accounts.

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| (iv) | Still in use three vehicles cost bearing Rs.21.29 million were fully depreciated. Nevertheless, those assets had not been revalued and treated to accounts. | The value of Rs.21.290 million Vehicles will be revalued and accounted for in accordance with the accounting standards. | Accounts should be complied with accounting standards and generally accepted accounting principles. |
| (v) | The income received by the fund is transferred to a savings account monthly and retention of up to Rs.300 million in the savings account without being used in appropriate short term investments, resulted approximate Rs.18 million interest incomes lost as per the calculation of audit. Further, at the end of the year, a balance of Rs.121 million has been maintained in the savings account. | The surplus money will be properly invested in the future. | Surplus funds should be invested effectively. |
| (vi) | In 2020, Central Environment Authority and National Building Research Institute had been assigned three air quality measuring devices which had been purchased for the total cost amounting Rs.129.999 million by the fund on December 17, 2018. However, calculation of Depreciation amounting as Rs.25.999 million has been inclusion in the financial statements and due to that amount, the surplus for the year has been understated. | Will proceed to remove the applicable amount of depreciation from the books of accounts from the date of the legal transfers. | Accounts should be complied with accounting standards and generally accepted accounting principles. |
| (vii) | According to the agreement entered with the supplier while purchasing ambient air quality meters should have to be given a foreign training by the supplier. However, the amount of Rs.2 million which is holding due to non-providing of aforesaid training, stated as a payable amount in the financial statement without removing on consent by the supplier. | The amount of Rs.2 million will be removed from the books of accounts by having consent from relevant supplier. | This payable balance should be removed from the books of accounts and recognized as an income. |

1.5.2 Going concern of the Fund

Audit Observation -----	Management Comment -----	Recommendation -----
<p>As the provision of paragraphs 03 and 04 of State Finance Circular No. 02/2018 which is issued in accordance with Cabinet Paper No. 17/1615/702/002-xvii and, the decision of the Cabinet meeting held on August 09, 2017, the Emissions Fund should have to be liquidated and liabilities settled in the year 2018.</p> <p>Nevertheless, the Board of Trustees of the fund had worked to maintain the fund by approving the budget documents of the fund by the line minister without the approval of the Cabinet of Ministers, the Ministry of Finance or the Treasury.</p>	<p>A committee has been appointed to take a decision on the continuation of the fund and its recommendations have been forwarded to the Cabinet Office.</p>	<p>To confirm the continued existence of the fund, the approval of the Cabinet should be obtained immediately.</p>

1.5.3 Documentary Evidences not made available for Audit

Audit Observation -----	Management Comment -----	Recommendation -----
<p>According to the agreements made with two private companies, who carry out emission tests, 10 percent of the inspection fee charged for each vehicle is to be paid to the Emissions Fund. Nevertheless, without checking the number of tests conducted by the private companies, the test fee charged by them, the revenue due to the Emissions Fund and, accordingly, without confirming whether the government received the revenue properly. During the conversion year, the amount of Rs.272.23 million remitted to the fund by the concerned two companies had been identified and accounted as income of the fund.</p>	<p>Smoke test results are forwarded to ICTA and through this, the information related to the Emissions Fund is obtained. Therefore, the 10% amount received by the Emissions Fund is calculated based on the information obtained through that process.</p>	<p>A system should be developed to check the test fee income of the two private companies conducting air emission tests.</p>

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, regulations etc.	Non-compliance	Management Comment	Recommendation
----- State Finance Circular No. 01/2020 and dated 28 August 2020/ F.R. 876 (2) (a)	----- If it appears that the functioning of the existing funds is of national interest and if the funds have not been properly approved by the parliament through an act, then the approval of the parliament should be obtained within one year of the issuance of this circular, even though, such approval had not been obtained.	----- A committee has been appointed to take a decision on the continuation of the fund and its recommendations have been forwarded to the Cabinet Office.	----- Should be working accordingly circulars and monetary regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.252,377,705 and the corresponding surplus of the previous year was Rs.248,572,349. Accordingly a growth of Rs.3,805,356 in the financial result is observed and the increase in fixed deposit interest income by Rs.34,393,151 compared to the previous year was mainly due to this growth.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
----- (i) The approval had been granted by Management Service Department by the no. DMS/1143/VETF and letter dated 10th December 2017 to liquidate the Emission Trustee Board and reestablish as a section (emission Project Office) of motor traffic department, treasury secretary also had been granted the same recommendation by the no. PED/RED/CIR/2018/02 and letter dated 18th August 2018. Even though, the governing	----- The functions of the Vehicle Emissions Testing Project Office should be carried out by qualified staff more specialized than other general public service functions. For that, the staff has been trained at home and abroad. Accordingly, the post names for the staff were prepared and submitted to the Management Services Department. As mentioned in Management Services Department reply letter (number MT/02/01/01/02/11/II and 10th	----- The actions should be taken as per the recommendations given by The Management Services Department letter.

body of the fund had taken steps to continue the fund without establishing it as a division under the Department of Motor Transport, ignoring the approved staff and maintaining 18 additional posts, paying salaries and allowances of Rs.7,360,976.

December 2017), the officers for posts of the project office, should be obtained from government approved services. A problem has arisen regarding the inclusion of the officers, Since, it is planned to take over, working in the Trust Fund to those services. In this regard, the Department of Management Services has held discussions with the Ministry of State and accordingly a cabinet paper has been forwarded to the Minister of Transport.

(ii) According to the decision taken by the Board of Trustees of the fund on January 16, 2020 and on November 03, 2020 regarding air quality measuring equipment, the value of Rs.82.752 million Eco Tech model Ambient Air Quality Measurement two units for Central Environment Authority and value of Rs.47.247 million. Ambient Air Quality Measurement one units for National Building Research Institute has been handed over. Nevertheless, It was decided and paid in the emission fund trustee meeting dated March 15, 2022 to bear a cost of Rs.25.58 million to the Central Environmental Authority and Rs.8 million to the National Building Research Institute for operational repair and maintenance services of the equipment.

One of the primary objectives of this fund is to improve air quality. This fund will spend the money allocated for such activities without incurring any additional cost to the government. Accordingly, information on air quality is needed to make the right policy decisions about air conditions.

The fund should be developed and maintained necessary procedures to measure air quality and reduce air pollution.

(iii) According to the agreement entered between the Chairman of the Central Environment Authority and the Commissioner General of Department of motor

The Central Environmental Authority has informed us that the relevant local representatives are not available to repair this equipment.

It should have strong internal controls to protect assets and effective usage.

traffic, In 2013, Central Environment Authority had been acquired, Rs.30.82 million mobile air quality monitoring station from the Fund. However, the set of equipment had been out of service since 2016 and is in need of repair. Due to, the non-performance of the relevant works, the relevant equipment set and the lorry had been allowed to decay without any use. As per the agreement, the legal ownership and maintenance responsibility of this set of equipment is with the fund, so the management of the fund had failed to decide in time whether to repair or dispose of the said equipment.

Accordingly, we have made an inquiry with the National Building Research Institute regarding the ability to accept the relevant equipment and they have expressed their consent to accept the above vehicle.

(iv) According to the accounts of the Emissions Fund, the accumulated profit till 31.12.2022 is Rs.476.901 million, but without crediting the said accumulated profit to Consolidated Fund, the Fund had been invested in fixed deposits Rs.328.263 million and Rs.121.677 million in savings deposits.

The surplus of the fund shall be credited to the Consolidated Fund only subject to the approval of the Board of Trustees at the request of the State Finance Department. Accordingly, in the year 2022, Rs. 400 million has been credited to the Consolidated Fund.

The surplus of the fund should be credited to the consolidated fund in due course.

3.2 Disputed Transactions

Audit Observation

Management Comment

Recommendation

(i) From the year 2008 when the fund was established to the year under review, Rs.283.5 million were spent on providing air quality measuring equipment and smoke testing equipment to other external organizations, and on Rs.40 million for research and development activities to achieve objectives of the Fund. But

Will be taken the action to submit the performance reports as indicated by the audit. Also, the details of the performance of the fund are included in the performance report of the Department of Motor Transport.

Performance reports or progress reports should be prepared periodically.

performance reports or progress reports had not been maintained to ascertain whether the fund's objectives were achieved through those investments. Accordingly, the board of trustees of the fund had failed to evaluate whether the objectives of the fund were fulfilled in the last 15 years based on the performance data/reports.

- (ii) It had been spent 28.6 million rupees by the Air Emission Fund for the years from 2012 to 2017 for various researches such as traffic-related air pollution, air quality, energy, environment and economic effects of major cities in Sri Lanka. However, the said expenses had become useless when the final research result obtained from those projects, due to the fact that no program was prepared and implemented for any positive action with research result obtained.

It is informed that all the research reports have been received and that the recommendations given in the research reports have been implemented and the related data has been handed over to the interested parties as well as to the Air Resources Management Unit of the Ministry of Environment. After that, it has been taken actions to publish the content of research papers in websites of our ministry and ministry of Environment as well.

An action plan should be developed to implement the recommendations given by the research reports.

3.3 Idle or underutilized property, plant and equipment

Audit Observation -----	Management Comment -----	Recommendation -----
(i) The fund has provided a mobile air quality monitoring unit to the National Building Research Institute at a cost of Rs.47.247 million. However, Since March 2020, that mobile air quality monitoring unit had been parked in the Colombo Municipal Council premises, without checking the air quality in any other area.	Due to the high cost of going to urban areas to measure the air condition, to prevent the damage that may be caused by leaving the equipment unused, and to put the equipment to useful use, with the agreement of the Colombo Municipality, the equipment has been placed with full security in the premises of the Colombo Municipality and the data are received.	A formal test plan should be prepared including air quality test locations, methods, time and resources used.

- (ii) Without obtaining the necessary preliminary approval and completion of necessary infrastructure for setting up new smoke testing stations, on December 28, 2017, the Emissions Fund had been provided 10 diesel vehicle smoke test kits to the Sri Lanka Transport Board at a cost of 21.937 million rupees. Although, Until the year under review, due to the inability to obtain the necessary legal clearances for the establishment of smoke testing stations, the said equipment was becoming unusable for more than 5 years.
- The Commissioner General of Motor Transport gave permission to carry out inspections so that the buses belonging to the Sri Lanka Transport Board can get revenue licenses and all the district secretariats and regional secretariats have been informed about it and it is very I would like to inform you that the work will be started soon.
- Such investments should be made only after ensuring that basic approvals and necessary infrastructure are completed.
- (iii) The Air Emissions Trust Fund had provided two ambient air quality measuring units to the Central Environmental Authority at a cost of Rs.82.75 million and the mobile ambient air quality measuring device at a cost of Rs.47.24 million to the National Building Research Institute. According to the agreement, the measurement data obtained by the relevant equipment should be given to the fund. However, due to the lack of a pre-specified program regarding the work to be done using the measurement data obtained by the air quality measurement equipment and no useful work being done using the same measurement data, more than Rs130 million. The government's investment of money and measurement data obtained by the equipment had become useless.
- The main purpose of purchasing this equipment is to obtain the data required for air quality management and to display it to the public. This data is directed to be used by the Air Quality Management Center of the Ministry of Environment to identify policies, decisions and activities related to air quality management.
- A specific program should be prepared regarding the work to be done using the measurement data obtained by the air quality measuring device.