

Rewards and Incentive Fund of the Department of Motor Traffic - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rewards and Incentive 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 Standard, 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 audit 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 audit 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard -----	Management Comment -----	Recommendation -----
Due to allocation of Rs.200,000 in the current year for training, education, sports, entertainment, welfare and appreciation activities and Rs.200,000 in the previous year as well the surplus for the year had been understated by Rs.200,000 and current liabilities had been overstated by Rs.400,000 Nevertheless, this had been violated the situation where the conditions for recognition of expenditure, in accordance with section 22 of Public Sector Accounting Standards of Sri Lanka number 08.	Even though the allocated fund for the related training, education, sports, entertainment, welfare and meritorious activities was not spent due to the prevailing situation in the country and it will have to be spent on welfare of the employees in the future and the annual allocation for those activities is a small amount and its insufficient in comparison with the existing expenses since an amount equal to the sum of allocations in several years will have to be incurred in future date and that amount is certain, the Board of Governors has given approval to account as allocation by annually.	Complying with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation -----	Management Comment -----	Recommendation -----
(a) Although only the expenses relating to the current year should be adjusted against the income of the year, a cost of Rs.278,547 which should incurred by the accounting entity or there is no obligation to be incurred by the	Administrative expenses had been approved by the Board of Governors to be maintained as a provision account. Therefore the entire amount had been included in the statement of financial performance as an expense.	According to the concept of accrual basis, the expenses related to the year should be identified properly.

entity had been included in the statement of financial performance as administrative expenses.

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| (b) | The over-allocation of administrative expenses of Rs.256,784 for the previous year had been adjusted to the income of the current year without adjusting to the accumulated fund. | The remaining balance in provision account of administrative expenses after paying expenses was added to the last quarter incentive as per the decision of the Board of Governors. | The income and expenses related to the year should be identified accurately in the financial statements. |
| (c) | Due to the value of Rs.3,378,195 related to the 5 percent of the total earnings of the fund to be retained as per No.3(2) of the Directives (Rewards and Incentive fund) for motor vehicles, No.04 of 2011 is recorded as an expenses in the financial statements, the surplus of the period was understated by that amount. | As per No.3 (2) of the Directives (Rewards and Incentive fund) for motor vehicles, No.04 of 2011, 5% amount had been retained as provision. | The retentions from surplus for the period should be adjusted through the statement of changes in equity. |
| (d) | The deposit balance according to the balance confirmation letter given by the Bank on 31 December 2022 in relation to the three fixed deposits of the fund is amounting as Rs.75,575,622, but, in the financial statements, had been shown amounting as Rs.77,259,016. Thereby, the fixed deposit balance has been overstated by Rs.1,683,394. | Since the interest on cash basis cannot be included in the final account, fixed deposit interest had been calculated on accrual basis and final account had been prepared. | Actions should be taken to correctly identify transactions based on the source documents. |

1.6 Unauthorized Transactions

Description of Unauthorized Transaction	Management Comment	Recommendation
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A total allowance of Rs.114,000 had been given to the Board of Governors of the fund without formal approval although there was no required provision for payment of allowances to the Board of Governors of the fund as per the	A provision had been made to allocate 1% of the incentive income as management and administrative expenses of the fund under section 213 (c) of the Motor Traffic Act. Accordingly,	Action should be taken according to the relevant circulars.

Treasury circular No. P.E.B/3/2015 dated 17 June 2015 issued in relation to the payment of allowances to the Board of Governors. this allowance had been paid to the members of the Board of Governors who contribute to the management and administration of the fund as per the approval of the Board of Governors.

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

Reference to Non-compliance with Laws, Rules, Regulations	Non-Compliance	Management Comment	Recommendation
Financial Regulation 877(2)(c) introduced under paragraph 15.1 of part I of the Public Finance Circular No. 01/2020	According to the guideline 02, sub paragraph 01, all receipts and payments of a statutory fund should be formally recorded on the basis of source documents in appropriate sub-ledger books and ledger accounts, journal entries and ledger accounts were not formally prepared in relation to the Rewards and incentive fund in the year under review.	Required sub- ledgers, cash book, general ledger, journal entries, investment register, receipt register, payment register, etc. had been maintained according to the Financial Regulation 877(2)(c) guideline 02 sub paragraphs 01 under paragraph 15.1 of part I Public Finance Circular No.01/2020 and F.R.445 and also according to nature and requirement of the fund.	Transactions should be recorded in appropriate sub-ledger books and ledger accounts based on formal source documents as per the Public Finance Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.12,043,191 and the corresponding surplus in the preceding year amounted to Rs.2, 946,579. Therefore an improvement amounting to Rs. 9,096,612 of the financial result was observed. The reason for the improvement is increase in fixed deposit interest income by Rs.9,444,464 compared to the previous year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although provision is included for payment reward money for persons who provide information to the Commissioner of Motor Traffic about persons who committing	There is a procedure to complain to the investigation division of the department regarding irregularities related to motor vehicles and there is sufficient provision for payment	Attention should be paid to prepare a formal procedure in order to achieve the objectives of the

motor vehicle irregularities and identify information related to erroneous activities/detect erroneous activities as per No.3(1) of the Directives (Rewards and Incentive fund) for motor vehicles, No.04 of 2011, the formal procedure had not been established to provide information regarding motor vehicle irregularities, corruptions or misuses, to inform the people about it and to inform the people about the reward system.

of money to those who provide information about any irregularities according to the No.3(1) (a) of the Directives (Rewards and Incentive fund) for motor vehicles.

- (b) Although half of the penalties under court cases assigned by the Department of Motor Traffic as per the section 213 d (2) of the Motor Traffic Act and money prescribed under section 213 (e) of the Motor Traffic Act or by the Director General of customs or under any other written law should be paid to the rewards fund, any income had not been received by the fund from the aforesaid sources and any arrangement had not been made by the management of the fund to collect money for the fund from that sources.
- If that kind of money was received, the legal section of the department and the Department of Customs will inform to the management of the Rewards and Incentive fund and such information has not been made until now.
- A procedure should be built up to obtain information related to the penalties under court cases assigned by the Department of Motor Traffic as per the section 213 d (2) of the Motor Traffic Act, as well as customs penalties and charges accordingly custom ordinance.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation -----	Management Comment -----	Recommendation -----
It was observed that budget document has not been used as an effective financial control method due to the fact that variations between the budgeted values and the actual values were shown from 24 percent to 100 percent in relation to 12 accounting objects in the reviewed year.	Decrease in income due to the decrease in vehicle transfers due to suspension of vehicle importation, the economic crisis in the country, increase in the interest rates and cost control due to economic crisis in the country.	Preparation of budget allocations should be done in a realistic way