

Reward and Incentives Fund - 2013

The audit of Financial Statements of the Reward and Incentives Fund for the year ended 31 December 2013 comprising the Balance Sheet as at 31 December 2013, income and expenditure account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 213 D (5) of the Motor Traffic Act,(Cap 203) as amended by Motor Traffic (Amendment) Act No.8 of 2009. My comments and observations on these financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is Responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Reward and Incentives Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Accounting Policies adopted in the preparation and the presentation of accounts of the Fund had not been disclosed.

2.2.2 Accounting Deficiencies

The following observation are made.

- (a) Interest on fixed deposits and Treasury Bills receivable for the year under review totaling Rs.692,119 had not been brought to account.
- (b) The “Pay As You Earn Tax” recovered from officers in the payment of incentives in the year under review amounting to Rs.59,538 had been brought to account as an expenditure of the Fund instead of being adjusted to the Incentive Account. It was further observed that a sum of Rs.17,424 had been over recovered than the correct amount.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations

Non – compliance

(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 371 (2)

Even though a sub-impresst should be settled immediately after the completion of the purpose for which it is granted, all instance of settlement of a sub-impresst after a lapse of 6 months was observed.

(ii) Financial Regulation 372

The impresst or sub-impresst in the custody of each Department or office must be checked at irregular intervals but not less than once every month by the Head or other officer delegated for the purpose. Nevertheless, the Register of Advances of the Fund had not been subjected to such a check.

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| (b) Public Administration Circular No.17/2001 dated 10 July 2001 | Contrary to provision of the circular, a female officer who had retired after reaching the age of 60 years had been appointed on contract basis as the Financial Controller of the Fund and a sum of Rs.420,000 had been paid as an allowance during the year under review. |
| (c) Public Finance Circular No.PF/423 dated 22 December 2006 paragraph 3.2 (b) | The excess cash after settlement of cash payable and other liabilities should be immediately transferred to the Consolidated Fund. Where the excess money has been invested in external institutions, those investments should be transferred to the Consolidated Fund immediately after they are matured. However action had not been taken in respect of a sum of Rs.29,000,000 belonging to the Fund. |
| (d) Motor Traffic Order No.04 of 2011 | Even though the Order stipulated annual expenditure limit to be incurred for activities, the balance of Rs.2,316,902 which did not exceed such limit had been credited to 4 Reserve Accounts. |

2.4 Payments without Authority

The following observations are made.

- (a) In terms of sub-paragraph 06 (d) of the Public Administration Circular No. 06/2006 dated 25 April 2006, instructions in respect of all allowances and incentives should be issued after consulting the National Salaries and Cadre Commission through the Ministry of Public Administration. Without doing so, a sum of Rs.95,513,462 had been paid to officers as incentives during the year under review.
- (b) A sum of Rs.217,176 had been paid during the year under review as incentives to 4 officers including 2 Development Assistants who had been attached to the Ministry of Transport and who had not performed any direct duties in the Department.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating surplus of the Fund for the year under review amounted to Rs.4,799,765 as compared with the surplus of Rs.3,719,592 for the preceding year thus indicating an increase of Rs.1,080,173 in the financial results. The receipt of interest on fixed deposits amounting to Rs.1,518,315 had been the main reason for the increase of this surplus.

3.2 Idles Resources

A sum exceeding Rs.40 million of the Fund had been idling in a Bank current Account over a period exceeding 03 months without being deposited in the Treasury Surplus Account.

4. Operating Review

4.1 Performance

The following observation are made.

- (a) The prior approval of the Commissioner General of Motor Traffic should be taken for marking, manufacturing, assembling, renovation, adaptation, mitigation and change of make of motor vehicles. Even though the principle objective of the establishment of this fund is to pay cash donation to persons who provide information about such illegal action without approval, no payment whatsoever had been made during the year under review for those who provided such information.
- (b) The creation of individuals who provide information in respect of persons engage in illegal actions on motor vehicles by encouraging them to provide such information and to encourage officers to take legal action against the culprits etc. had been the major expectations of the establishment of this Fund. Nevertheless, any evidence whatsoever in audit to ensure whether any course of action had been taken by the Fund to encourage officers or individuals who provide such information.

4.2 Transactions of Contentions Nature

Even though action had been taken to provide one per cent of the receipts of the Funds for administration functions, the one per cent had not been specifically stated in the Motor Traffic Order No.01 and it was stated that this was the money payable for administrative expenses.

5. Accountability and Good Governance

5.1 Action Plan

An Action Plan for the Reward and Incentive Fund had not been prepared by the Department.

5.2 Budgetary Control

Variations between the Budget estimates and the actual expenditure totaling Rs.11,981,732 in respect of the payment of incentives to staff of the Motor Traffic Department had existed. Accordingly the Budget had not been properly prepared and as such the Budget had not been made use as an effective instrument of financial control.

5.3 Unresolved audit paragraphs

Even though I have drawn the attention of the Commissioner General of Motor Traffic about the culprits of both persons and officers who performed fraudulent acts on motor vehicles by

my queries bearing Nos. SC/C/DMT/2010/03, SC/C/DMT/2010/04 and TH/D/RMV/06, an adequate course of action had not been taken by the Department in this regard.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Motor Traffic from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Accounting