

National Transport Commission - 2013

The audit of financial statements of the National Transport Commission for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 37 of the National Transport Commission Act, No. 37 of 1991. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2)(c) of the Finance Act appear in the report. A detailed report in terms of Section 13(7)(a) of the Finance Act will be issued to the Chairman of the Commission in due course.

1:2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the 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 Commission'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 financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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 this 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 National Transport Commission as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) Depreciation of an asset begins when it is available for use and the depreciation amount of an asset should be allocated on a systematic basis over its useful life. Nevertheless, the Commission had adopted a policy, not to depreciate an asset in the year of purchase and as such the provision of depreciation for the Property, Plant and Equipment purchased during the year under review valued at Rs.74,983,695 had not been made.
- (b) Instead of accounting the value of furniture and fixtures amounting Rs.671,846 purchased for the transport companies under assests, they had been accounted as expenditure.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.13,231,854 payable in respect of G.P.S equipment purchased during the year under review and the previous years in order to fix in the inter province buses had not been brought to accounts and as such the deficit had been understated by that amount.
- (b) The mobilisation advance of Rs.21,349,943 paid on 01 January 2014 relating to the contract for the Construction of Vavuniya Bus Stand had been brought to accounts as a transaction of the year under review, instead of accounting for the ensuing year.
- (c) Eventhough the accrual basis for accounting was adopted by the Commission, the expenditure of Rs.364,479 payable relating to the year under review had not been brought to accounts. Eventhough the interest of Rs.315,999 on investments given by the bank had been confirmed by the Bank it had been omitted from the accounts.

2.2.3 Unexplained Differences

According to the finanacial statements the value of investments as at the end of the year under review amounted to Rs.170,176,087 and the interest received thereon had been re - invested but instead of accounting the iterest received as an investment, it had been included in an interest receivable account. According to the bank confirmation, the interst received was Rs.9,533,912 but the amount accounted as interest receivable was Rs.8,877,359.

2.3 Non – complaine with Laws, Rules and Regulations

The following non – compliance with laws, rules and regulations were observed.

Reference to Laws, Rules , Regulations and Management Decisions	Non – complaine
(a) Section 11 of the Finance Act No.38 of 1971 and Section 8.2.2 of the Public Administration Circular No PED/12 dated 02 June 2003.	Eventhough investments in fixed deposits, short terms deposists, call deposits and Treasury bills amounting to Rs.16,525,336 and Rs.170,176,087 and Rs.8,400,591 respectively had been made in the year under review, concurrence of the Minister of Finance and the approval of the relevant Minister thereon had not been obtained.
(b) Section 9 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	(i) Warm clothing allowance can be paid to an officer who proceeds abroad for an official duty in rupees equivalent to £ 75. However 861 US\$ had been paid to 07 officers in 2 instances. (ii) Eventhough the warm clothing allowances can be paid only for the countries in temperate zone, warm clothing allowance had been paid for proceeding to Singapore in which there is no such a climate.
(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	(i) Financial Regulation 371 (2) (a) Advances payable to an officer at a time should be Rs.20,000 but advances ranging from Rs.87,600 to Rs.455,000 had been paid. (ii) Financial Regulation 1646 Eventhough Daily Running Charts had been maintained in respect of motor vehicles of the Commission, reconciliation of fuel indicating the quantity of fuel obtained by each vehicle, fuel consumption and the balance fuel quantity in the tank had not been carried out. The originals of Running Charts and Monthly Performance Summaries had not been submitted to the Auditor General. (iii) Financial Regulation 1647 Reports of changes in respect of protection of of all vehicles of the Commission had not been maintained.

- (d) Public Administration Circular No.41/90 dated 10 October 1990 Fuel consumption of all vehicles of the Commission had not been tested by a qualified person once in 6 months.
- (e) Public Administration Circular No.26/92 of 19 August 1992 Except the motor vehicles allocated for private use the state emblem and the name of institution should be embossed in all other vehicles of the Commission. Action had not been taken accordingly.
- (f) Treasury Circular No.1A1/2002/02 dated 28 November 2002 A separate Fixed Assets Register had not been maintained in respect of computers and computer accessories.
- (g) Treasury Circular No.842 of 19 December 1978 Eventhough the invoice value of assets purchased had been included in the Register of Fixed Assets, annual depreciation, increase in value or disposals had not been separately included.
- (h) Circular No. FP/06/35/02/01 dated 04 November 2013 of the Ministry of Finance and Planing Action had not been taken to recover PAYE tax from an officer of the commission who had drawn the monthly salary for more than Rs.50,000 per month.
- (i) Government Procurement Guidelines of 2006
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- (i) Section 2.11.1 (c) The first meeting for the construction of 25 passenger shelters had not been held jointly by the Procurement Committee and the Technical Evaluation Committee.
- (ii) Section 4.2.3 (c) Action had not been taken to get the procurement time table prepared in respect of procurement activities of the Commission and approved by the Procurement Committee.
- (iii) Sections 4.3.1 and 4.3.2 A cost estimate for the project of construction of passenger shelter had not been prepared and get it approved.
- (iv) Section 6.2.2 Minimum period of 21 days for bidding had not been given to bidders in respect of construction of long distance passenger shelters.
- (v) Section 8.9.1 An agreement had not been entered into with the contractor by the Commission.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the National Transport Commission for the year ended 31 December 2013 had been a deficit of Rs.181,195,469 as against the surplus of Rs.2,680,681 for the preceding year. The financial results of the year under review had deteriorated by Rs.183,876,150 as compared with the preceding year. Increase of expenditure of Special Projects, establishments, legal, advertisements, depreciation and other expenses ranging from 29 per cent to 69 per cent had been the reasons for the deterioration.

3.2 Legal Cases Intiated against the Commission or by the Commission

The following observations are made.

- (a) Fifteen cases filed in the courts against the Commission in respect of time tables, Passenger Service Licenses, revision of bus fares, bus stand facilities, action taken against employees of a bus etc.by 15 external parties.
- (b) Ten cases had been filed by the Commission in respect of time tables transfer of bus stands, Passenger Service Licenses, running without route permits, payment of “ Gami Sariya”, “ Sisusariya ” and subsidies, against the institutions.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Twenty one buses had been running by the end of the preceding year under the “ Gamisariya” service project commenced and operated for the persuasion of running the buses in the uneconomical rural routes for which bus runners do not prefer to run the buses.Eventhough it was planned to begin 50 new services during the year under review, only 19 services could be able to begin. Further, 9 route permits had been cancelled in view of non supply of services as specified during the year under review.Only 31 buses had been in operation by the end of the year under review. Therefore the commission could not achive the targets , though new services are open annually due to the above reason.
- (b) One hundred and twenty three buses had been engaged by the beginning of the year under review for the “ Nisisariya ” bus service opened with the objective of facilitating passengers who face difficulties due to shortage of buses specially at night and early morning. Although it was targeted to engage 75 new bus services, only 42 services had been commenced. Thirty one services had been cancelled due to failure of supplying the services as specified and the number of buses run by the end of the year under review was 111 though the total number of buses allocated for running was 134.
- (c) Eventhough it was planned to construct 7 bus stands in Nuwaraeliya, Udapussellawa, Highforest, Jaffna, Mullathivu, Killinochchci and Mannar during the year under review, they could not be commenced due to non resolving of land settlements, rendition of plans and obtaing approval etc.

Further, it was re- planned to complete Nuwaraeliya renovation in the year 2014 and to complete construction work of Udapassellawa and Highforest in the year 2015.

- (d) According to the action plan relating to the year under review, a sum of Rs.10 million had been allocated for the construction of 35 Long Distance Passenger shelters. Tenders had been called for the construction of only 25 shelters but only 13 had been constructed and a sum of Rs.2,883,240 had been spent thereon.

4.2 Management Inefficiencies

The following observations are made.

- (a) According to a survey carried out in respect of buses run from Nuwaraeliya to Colombo and other regions, 44 buses were required for 19 routes but quotation had been called for only 5 routes by obtaining the approval of the Board of Directors calling for 10 Licenses. Another 2 Licenses had been issued by 31 October 2014. As the bus runners were not present for obtaining Licenses and also there were no qualified applicants among the persons, only 2 Licenses had to be issued as stated by the Chairman.
- (b) According to the information revealed from 2 surveys, quotations were called for the issue of 7 Licenses for another 06 roads on the approval of the Board of Directors, only 4 Passenger Service Licenses had been issued by the end of October 2014. The Chairman had stated that only 4 route permits had to be issued due to non presenting the bus runners for rout permits as per the specified prices.
- (c) Out of 2 quotations received for the passenger permit of Colombo – Kuchchaweli road, the tenderer who had quoted the highest price had rejected to get the permit. As the second highest tenderer had not agreed to the proposal to get the permit at the price tendered by the rejected tenderer and the issue of that permit had delayed up to 26 December 2013 due to attempting of issuing that permit at the highest price to himself. If a bid bond had been obtained in calling for tenders for passenger services permits, losses incurred in such rejections could have been minimized Names of such persons who rejected the accepted quotation had not been black listed to unable them to get a permit again.
- (d) Bicycles purchased at the last quarter of 2012 for the free distribution among the school children with transport difficulties under the Sisusariya Project had been supplied with the various defects. Eventhough the supplier had been informed, asking him to rectify those defects, he had not responded. Despite that, another 2250 bicycles had been purchased from the same supplier in the year 2013 with similar defects. Instead of returning the defective bicycles to the supplier, payments had been made after deducting 01 percent of the amount payable. Further, 3050 bicycles valued at Rs.28,750,150 including the bicycles purchased during the previous year had been distributed during the year under review. It was not ensured whether these bicycles had been handed over to the relevant students as the relevant students had not acknowledged the receipt of bicycles.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) In terms of the approval obtained by the Cabinet Memorandum No. 10/2374/445/077 regarding the issue of passenger service permits from Colombo and outside to Northern and Eastern Region, it was decided by the Borad Paper dated 22 March 2012 not to issue permits after 31 May 2012. Contrary to that, and despite I have pointed out from my audit quarry No. RT/B/NTC/13 dated 22 April 2013 in respect of the issue of 2 passenger service permits in June and July 2012 and despite a written statement had been given by stating that action would be taking in accordance with the decision of the Board of Directors at the enquiry carried out by the Bribery and Corruption Commission, another 2 permits had been issued during the year under review under that cabinet decision.
- (b) According to the Management Services Circular No.01/2013 (i) dated 09 December 2013 a bonus at Rs.12,500 per employee can be paid only by state corporation and similar institutions if a profit is generated. However according to the statement of financial performance presented to audit the Commission had an overall loss of Rs.181,195,469 but the full bonus had been paid. However the Chairman had explained that bonus had been paid on the basis of operating profit of Rs.163,772,129 generated by the National Transport Commission.

4.4 Uneconomic Transactions

Eventhough a sum of Rs.295,215 had been spent for the advertisement published for calling quotation for the issue of 27 Passenger Service permits in the Kottawa – Matara Expressway, neither any tender forms nor any permits whatsoever had been issued.

4.5 Weaknesses in Contract Administration

The following observations are made.

- (a) It was planned to contract Thalawakele bus stand in 2 stages and the estimate for the 1st stage amounted to Rs.31,389,340. This construction work had been operated by the Urban Council, Thalawakele. The following weaknesses were observed in this connection.
 - (i) Eventhough an estimate for Rs.37,861,728.30 without taxes had been prepared by the State Engineering Corporation for this 3 storied building, it had been re – estimated for Rs.31,389,340 by the Thalawakele Urban Council as it was decided to complete it in 2 stages. However, formally approved of these estimates were not made available for audit.
 - (ii) Eventhough if any additional works had to be carried out during the construction in progress, the approval of the Commission thereof should have been taken before such work was started, the approval for additional works certified on 31 January 2014 valued at Rs.3,614,369 had been obtained after completion of that work.
 - (iii) The contract should have been completed before 31st of March 2014 but the period had been extended up to 23 April 2014. The contract had not been completed even by the end of September 2014 and the liquidated damages totalling Rs.1,136,691 at Rs.7,149 per day

for the delay 159 days had not been recovered as per the condition of the contract agreement.

- (b) A LED screen had been fixed at the Bastian Mawatha Bus Terminal in order to display the timetables by observed an expenditure of Rs.14,418,000 and the following deficiencies were observed in the operation of this transaction.
- (i) Action had not been taken to prepare a Procurement Timetable in terms of paragraphs 4.2.2 and 4.2.3 of the Procurement Guidelines in respect of the purchase and installation of LED screen and as such calling for quotations had delayed for about 01 year since the date of deciding to commence this project.
 - (ii) Out of the quotations received for the installation of LED screen, 4 institutions who quoted lowest prices had no previous experience in respect of this purpose and as such the institution who quoted the 5th lowest price should have been selected or all prices should have been cancelled and fresh quotation had to be called for. Without doing so, a presentation had been carried out through the institution who quoted the lowest price and the tender had been awarded to them.
 - (iii) As the supplier had not come to sign the formal agreement with the Commission, the contract had been awarded to a state corporation for Rs.14,418,000 without calling for fresh quotations on the above basis, despite there was a possibility of cancelling the contract at the same time and calling for fresh quotation. This price had been more than the 5th lowest quotation presented at the beginning by Rs.5,378,444.
 - (iv) The Commission had failed to encash the Performance Bond within the specified period as the first contractor had not performed the contract. As a result, the bank had rejected to encash the bond as the period was expired. It had been referred to the Attorney General for legal advice.

4.6 Personnel Administration

As compared the actual cadre with the approved cadre there were 61 vacancies which included 19 executive level posts.

4.7 Resources of the Commission given to other State Institutions

The following observations are made.

- (a) Two drivers had been released to the Sri Lanka Transport Board on a reimbursement of salaries basis. A sum of Rs.118,771 consisting of a sum of Rs.106,542 from one driver for 4 months and Rs.12,229 from the other driver for one month had not been reimbursed as at the last date of the year under review.
- (b) According to a request made by the Private Assistant of the Minister of Private Transport Services from his unnumbered letter dated 08 June 2013, a van belonging to the Commission had been released for the period from 13 June 2013 to 15 July 2013 with a driver of the Commission to inquire into complaints received by the Ministry of Private Transport Services

in respect of buses running within the Nuwaraeliya District. Any information regarding the person who had been employed for this inquiry, how many complaints it had been examined and the action taken in that regard etc. was not made available for audit. A sum of Rs.40,410 for fuel and lubricants and a sum of Rs.15,960 for service charges had been paid to the Administrative Secretary to the Sri Lanka Plantation Services Association affiliated to the coordinating office of the Nuwaraeliya Private Transport Services Ministry during the period of duty carried out in Nuwaraeliya on behalf of the Ministry.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Eventhough the financial statements for the year ended 31 December 2013 had been presented to audit on 28 February 2014, it had been returned on 10 March 2014 as the financial statements had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standards as instructed by Public Enterprises Circular No.PED/POL/CIR/2013-3 dated 02 October 2013. They had been prepared again and submitted to audit on 01 August 2014.

5.2 Budgetary Control

In comparing the budgeted figures with actuals there were variances ranging from 20 per cent to 1080 per cent, thus the budget had not been made use of as an effective instrument of management control.

5.3 Tabling of Annual Report

In terms of Section 12 (3) of the Finance Act.No 38 of 1971 and Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the annual report of the Commission should be tabled in Parliament. However, Annual Report for the year 2012 had not been tabled in Parliament even by 31 October 2014.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were reported to the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.

- (a) Issue of Passenger Services Permits.
- (b) Procurement Activities
- (c) Contract Administration
- (d) Vehicles Utilization
- (e) Payments of Advances and Settlements
- (f) Provision for Accrued Expenditure

