

## **Vehicle Emission Test Trust Fund of the Department of Motor Traffic – 2014**

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The audit of financial statements of the Vehicle Emission Test Trust Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 statement of financial performance, statement of changes in equity and cash flow statement for the year 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 the Motor Traffic Emission Control Order No.01 of 2008 published by the Gazette Extraordinary No.1533/17 dated 25 January 2008 and Section 29(b) of Motor Traffic Act (Cap.203) as amended by the Motor Traffic (Amendment) Act, No.8 of 2009. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 Auditing 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 judgements, including the assessment of the 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 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 Fund's internal control. An audit also includes the reasonableness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of 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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Vehicle Emission Test Trust Fund of the Department of Motor Traffic as at 31 December 2014 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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In terms of Sri Lanka Public Sector Accounting Standards No.03, rectifications amounting to Rs.9, 494,637 relating to preceding periods had been adjusted to the Accumulated Fund without making adjustments retrospectively.

#### **2.2.2 Accounting Deficiencies**

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Fixed assets worth Rs.3,136,139 purchased in the year under review had been debited to the Recurrent Expenditure Account instead of capitalizing, on erroneously copying to the Transaction Ledger, in the year under review. Only Rs.1,387,015 worth Fixed Assets had been debited and credited to the Accumulated Fund Account by its correctional journal. Thus, the surplus and the Fixed Assets had been understated as Rs.3,136,139 and Rs.1,749,124 respectively while the Accumulated Fund had been overstated as Rs.1,387,015, in the year under review.

### **2.3 Non- compliance with laws, rules, regulations and management decisions**

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The following non- compliances were observed.

<b>Reference to laws, rules and regulations</b>	<b>Non- compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
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(i) 371(2) (b) of Financial Regulations	Even though Rs.20, 000 worth ad-hoc sub imprests could be granted to a Staff Grade Officer, advances totalling Rs.1,166,100 had been granted to 08 officers in 27 instances, exceeding that limit.

(ii) Paragraph 3.2(b) of Public Finance Circular No.PF/423 of 22 December 2006

Though action has to be taken to transfer the surplus money to the Consolidated Fund immediately, after the settlement of payables and other liabilities and action to transfer excess funds to the Consolidated Fund immediately after maturity, when they are invested in external institutions, action had not been taken in terms of Treasury Bills and Treasury Bonds totalling Rs.354, 632,751.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the surplus of the Fund for the year under review amounted to Rs.126,399,391 as compare with the previous year's surplus of Rs.171,131,419. Thus, the financial result of the year under review had been reduced by Rs.44,732,028. An expenditure being incurred by the Fund for the commencement of Better Air Quality Conference in Colombo had been mainly affected for this reduction.

### **4. Operating Review**

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#### **4.1 Performance**

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The total number of motor vehicles of each vehicle class registered in the Department of Motor Traffic by 31 December 2013 were 4,800,555 and the number of motor vehicles which obtained vehicle emission test certificates in the year under review were 3,324,262. Thus, 1,476,293 motor vehicles, that is, 31 per cent of total number of motor vehicles had not obtained vehicle emission test certificates and the Fund had not taken action to implement a proper mechanism to identify the motor vehicles, not obtained vehicle emission test certificates or obtained fake vehicle emission test certificates.

#### **4.2 Management Inefficiencies**

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A company had been selected in 2012 by calling for quotations for the preparation of promotional programs on the Air Emission Program and to make aware of the public and, the same company had been selected in the year under review without calling for quotations and an expenditure of Rs.9,684,741 had been incurred for promotional activities by the Fund. Though the Fund had entered into an agreement with that company on 15 October 2013, a definite contract period had not been stated in the agreement and the publicity media, their specifications and their quotations were not included in the agreement.

#### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) Though the Vehicle Emission Test Trust Fund was operated with the objective of controlling fumes released by the motor vehicles which cause environmental

pollution, a proper assessment had not been carried out to evaluate the condition before and after the operation of Vehicle Emission Test Programs based on comparative environmental data in order to ensure whether those objectives had been satisfactorily achieved or not.

- (b) Ten per cent out of the fees charged by the two private companies as vehicle emission test fees must be remitted to the Fund since the date of commencement of the Vehicle Emission Test Trust Fund on 17 November 2008 to 31 December 2014. Accordingly, though a sum of Rs.695,679,989 had been remitted to the Fund, a proper mechanism had not been prepared and operated to ensure whether the share of the Fund had been correctly sent, out of the vehicle emission test fees charged from all motor vehicles, collected by the two companies.

## **5. Systems and Controls**

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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) Budgetary Control
- (b) Internal Control
- (c) Accounting