

Sri Lanka Transport Board – 2014

The audit of financial statements of Sri Lanka Transport Board for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the comprehensive income statement, statement of changes in equity 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(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 24 of the Sri Lanka Transport Board Act, No. 27 of 2005. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act, 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 Sri Lanka Accounting Standards and for such internal controls 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 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board'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 Board'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 Adverse Opinion

Had the matters described in Paragraph 2.2 of this report had been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in Paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka Transport Board as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Board

As the Board had been incurring continuous losses, the net assets had extensively eroded and as a result, the net assets by the end of the year under review had become a minus value of Rs.28,147,592,104. Therefore, the Board could not be continuously operated without a financial assistance of the Treasury or Government.

In analyzing the financial position for the year under review and the previous 4 years, current assets to cover up the current liabilities had been at a low level as 34 per cent of the total liabilities during the period from 2011 to 2014 and this level had been at 42 per cent in the year 2010. Non-settlement of payables as specified, failure in taking action to recover receivables and the balances brought forward for a long period without being settled had mainly attributed to this position.

2.2.2 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 07

The government grants of Rs.741,501,613 which should have been stated as financial activities in the cash flow statement had been shown under investing activities.

(b) Sri Lanka Accounting Standard 16

The following observations are made.

- (i) In terms of the Standard, depreciation of an asset begins when it is available for use and shall be allocated on a systematic basis over its useful life. However, the Board had followed the policy that assets were not depreciated in the year of purchase and fully depreciated in the year of disposal. As such, provision for depreciation on property, plant and equipment purchased for Rs.1,402,746,999 and used in the year under review had not been made.
- (ii) Steps had not been taken to revalue and account 2,235 buses which had been purchased after the year 2005 and fully depreciated and the buses purchased prior to that and still under running condition.

- (iii) According to the financial statements of the year under review, the value of land and buildings had not been identified separately. Contrary to the Standard, 50 per cent or Rs.159,899,660 of the total value of lands and buildings amounting to Rs.319,799,319 had been considered as the value of buildings and depreciated at the rate of 2.5 per cent.

(c) **Sri Lanka Accounting Standard 17**

The following observations are made.

- (i) In disclosing Lease liability in the financial statements, fair value of such lease assets or the present value of payable lease payments whichever is lower should be disclosed. However, the lease liability at cost and the interest thereon on sum of digit method had been calculated by the Board and shown the lease liability as Rs.10,064,442,013.
- (ii) The following disclosures had not been made in respect of the leases.
- * Reconciliation between the total of minimum lease instalment at the end of the reporting period and their present value.
 - * The total of future minimum lease instalment at the end of the reporting period, and their present value for periods not less than one year, over one year and less than five years and over five years.

(d) **Sri Lanka Accounting Standard – 19**

The Board had not used the “Projected Unit Credit Method” in respect of measuring post employees benefit liabilities in terms of the Standard.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.9,923,554,194 had been spent for the purchase of property, plant and equipment in the year under review, it had been shown as Rs.9,921,453,594 in the cash flow statement, thus understating a sum of Rs.2,100,600.
- (b) Even though a sum of Rs.11,193,911,852 had been shown under other payable accounts in working capital adjustments in the cash flow statement, it was Rs.11,195,752,191 as per ledger accounts, thus understating a sum of Rs. 1,840,339.
- (c) Bank charges and cheque book charges totalling Rs.184,262 recovered by the Bank from the year 2012 up to 31 December 2014 as shown in a Bank Account of the Board, had not been brought to account in the relevant Cash Book and Expenditure Accounts. As such, the accumulated profit shown as at the end of the year under review had been overstated by the similar amount.

- (d) According to the Stock Verification Reports of the Head Office and 09 Regional Offices, computed stock value was higher than the stock value in the Ledger by Rs.80,122,221 and without finding out the reasons therefor, it had been adjusted to the operating profit. As such, the loss of the year under review had been understated by the similar amount.
- (e) Out of the trade creditors balance amounting to Rs.2,468,853,247 shown in the final accounts of the year under review, 03 debit balances of trade creditors totalling Rs.37,117,112 had been deducted, thus the creditors balance had been understated by the similar amount.
- (f) Even though the audit fees payable to the Auditor General's Department for the period 2005-2012 amounted to Rs.3,081,446, it had been shown as Rs.417,526 in the financial statements of the Board. As such, the provision for audit fees payable had been understated by Rs.2,663,920.
- (g) Police license income of Rs. 3,653,998 recoverable from Ududumbara and Point Pedro depots belonging to Kandy and North Region had been brought to account erroneously as debits and credits to the relevant Police License Income Account instead of debiting the Recoverable Revenue Account. As such, the profit and the Trade Receipts Account of the year under review had been understated.
- (h) Settlement notes in respect of spare parts valued at Rs.13,824,553 purchased from 02 companies in the year 2014 and received to the Stores had not been brought to account in the relevant Advance Account and Creditors Account. As such, the balances in the Advance Account and Creditors Account had been overstated by the similar amount.
- (i) Sums amounting to Rs.70,449 and Rs.2,100 debited on 12 December 1991 and 01 September 1992 respectively by the Bank with regard to a Bank Account of the Board and the purpose of the receipt of Rs.12,665,851 for 4 bank accounts of the North Region of the Board from the year 2011 up to 2014 had not been identified and brought to accounts while those had been shown in the Bank Reconciliation Statements as at the end of the year under review.
- (j) Particulars in respect of debit balances totalling Rs.9,935,375,095 and credit balances totalling Rs.26,054,948,782 relating to dormant accounts as per the financial statements, were not made available for audit. As these balances had been shown under assets and liabilities in the statement of financial position of the year under review, a correct position was not depicted in the financial statements.

2.2.4 Unexplained Differences

The following observations are made.

- (a) Purchases of spare parts had been done through 08 bank accounts by the Board in the year under review and the balance of advances granted by 02 bank accounts out of the above as at 31 December 2014 had been Rs.284,394,842 whereas it was Rs.290,959,007 as per the schedule submitted therefor, thus a difference of Rs.6,564,165 was observed.

- (b) The creditors balance of 04 Regions shown in the final accounts of the Board had been Rs.760,116,593 whereas it was Rs.652,868,944 as per the creditors schedule submitted therefor, thus a difference of Rs.107,247,649 was observed.
- (c) Even though the number of travel passes issued during the year under review stood at 8,418 according to the information of the Accounts Division, the number of travel passes issued had been 5,748 according to the information made available to audit by the Running Division. Thus, a difference of 2,670 travel passes was observed.
- (d) In the cancellation of cheques issued to debtors of 02 Regions, Sabaragamuwa and Kaluthara, there should be credit balances in those creditors' accounts. Nevertheless, debit balances amounting to Rs.727,000 and Rs.312,460 had arisen in those accounts respectively while the reasons or explanations therefor had not been made available to audit.

2.2.5 Suspense Accounts

The debit balance of Rs.17,664,474 of the preceding year in a Suspense Account brought forward for more than 10 years being changed the balance had increased up to a debit balance of Rs.129,933,148 by the end of the year under review. Even though the balance of the Suspense Account had increased due to errors in accounting stocks pertaining to purchases in 09 depots of the Board in the Northern and Uva Provinces, the relevant adjustments thereto had not been made.

2.2.6 Lack of Evidence for Audit

As the evidence indicated against the following transactions was not made available for audit, they could not be satisfactorily vouched or accepted in audit.

Item of Account -----	Value ----- Rs.	Evidence not made available -----
(a) Trade Creditors	1,815,984,303	Detailed schedules and age analysis.
(b) Purchase Advances	795,139,018	Details of settlements relating to 14 journal entries
(c) Conductors' cash shortages	14,414,671	Schedules relating to 11 Regions
(d) Cashiers' cash shortages	36,251,543	Schedules
(e) Trade Debtor Balance	12,782,295	Schedules
(f) Cancelled Cheques	11,988,614	Detailed Schedules
(g) Advances	34,000,000	Documents relating to the settlement of advances
(h) Purchase Advances	3,000,000	Payment Vouchers

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) According to the detailed schedule of the outstanding advances presented to audit, action had not been taken to settle a sum of Rs.764,374,902 or 42 per cent of the purchase advances given prior to the year 2014 despite a lapse of one year.
- (b) Action had not been taken to settle a sum of Rs.5,927,694,884 payable as employees provident funds to the Sri Lanka Transport Board Fund, Central Bank of Sri Lanka and the Employees Trust Fund Board from the year 2008 up to the end of the year under review.
- (c) According to the age analysis of 4 Regions which had presented the schedules of trade creditors, creditor balances totalling Rs.323,650,997 between 1 to 5 years had not been settled and the creditor balances not settled within a period between 5 to 10 years and over 10 years amounted to Rs.48,969,260 and Rs.8,701,925 respectively.
- (d) The management had not paid attention to take necessary action to find out the reasons for the balance of cancelled cheques valued at Rs.636,536 remained since the year 2011 in the Avissawella Depot belonging to the Colombo Region.
- (e) A sum of Rs.3,000 per day should have been deposited in the Bank Account of the People's Bank in respect of 2,200 busses granted to 112 Depots from 01 July 2014 to 22 February 2015 under the leasing facility. Nevertheless, a sum of Rs.82,672,002 should have been receivable from those Depots to the Head Office as at the end of the year under review.
- (f) The balance of conductors' cash shortages in the Gampola Depot belonging to the Nuwara Eliya Region amounted to Rs.412,968 and it included a sum of Rs.143,936 outstanding over one year, while attention had not been paid to recover those balances.
- (g) Even though a sum of Rs.6,470,187 had been claimed as indemnity for 47 accidents occurred during the period from May 2014 to 10 November 2015, a sum of Rs.197,500 had been received only for a claim of Rs.200,000 in respect of one bus. The balance had not been recovered as at 26 July 2016.

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

The following instances non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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| (a) Sections 11 of the Finance Act No.38 of 1971 and Paragraph 8.2.2 of Public Enterprises Circular | Even though sums amounting to Rs.421,948,344, Rs.7,749,998 and Rs.42,323 had been invested in Fixed Deposits, Treasury |
|---|--|

No.PED/12 of 02 June 2003.

Bills and Other Deposits respectively, the concurrence of the Minister of Finance and the approval of the Minister in charge of the subject had not been obtained.

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

I. Financial Regulation 395(b)

Out of the 241 bank accounts maintained by the Board, Bank Reconciliation Statements relating to 165 bank current accounts had not been made available to audit in respect of the month of December of the year under review.

II. Financial Regulation 396(d)

Action in terms of Financial Regulations had not been taken on 67 cheques valued at Rs.9,179,895 relating to 11 bank accounts issued but not presented to the Bank for more than 06 months.

III. Financial Regulation 395(e)

Particulars of cheques valued at Rs.20,927,743 relating to 05 bank accounts, issued but not presented and cheques valued at Rs.1,125,000 relating to 02 bank accounts, deposited but not realized had not been made available.

IV. Financial Regulation 395(h)

In assigning duties to the officers, the preparation of Bank Reconciliations should be assigned to an officer who have no connection with the maintenance of the cash book. Nevertheless, the preparation of Bank Reconciliations relating to all bank accounts of the Board had been assigned to the officers who maintain the cash book.

V. Financial Regulation 446(2)

Payment vouchers totalling Rs.84,508,230 relating to 2 cash books maintained in respect of 02 bank accounts had not been numbered and the cash book had not been supervised by a Staff Officer responsible.

VI. Financial Regulation 757 and Public Finance Circular No.5/2016 of 31 March 2016

Action had not been taken to conduct a Board of Survey in respect of the Board for the year under review and to furnish those reports to the Auditor General.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results for the year ended 31 December 2014 had been a deficit of Rs.1,228,021,529 as compared with the deficit of Rs.1,974,484,387 in the preceding year. Accordingly, the deficit for the year under review had decreased by Rs.746,462,858 as compared with the preceding year. Even though the operating expenses of the Board had increased by Rs.1,977,695,268, increase in passenger transport income and other income by Rs.2,804,917,880 had mainly attributed to the decrease in the above deterioration.

In analyzing the financial results for the year under review and the four preceding years the deficit of the Board had gradually increased from the year 2010 to 2012 and the deficit of the year 2013 and 2014 had gradually decreased. In considering employees remuneration and depreciation on non-current assets, the contribution of the Board in the year 2011 had improved as compared with the year 2010. The contribution of Rs.11,499,778,412 in the year 2012 had continuously increased up to Rs.14,711,117,533 in the year 2014.

3.2 Legal cases initiated against the Board or by the Board

The following observations are made.

- (a) According to the information made available to audit, 31 external parties relating to 10 Regions had filed 31 cases against the Board as at the end of the year under review and a sum of Rs.87,372,874 had been claimed as compensations.
- (b) Ten employees of the Board had filed 10 cases against the Board and 08 cases out of those cases had been settled in favour of the employees as at 31 December of the year under review.
- (c) The Board had filed 07 cases against 07 external parties and compensations amounting to Rs.9,313,980 had been claimed.

4. Operating Review

4.1 Performance

In terms of the Sri Lanka Transport Board Act, No. 27 of 2005, the objectives of the Board, are as follows.

- To provide in consultation with the National Transport Commission and relevant Provincial Transport Authorities an efficient regular omnibus service which is efficient and effective ensuring economic viability. In order to achieve the above objective, the Board shall prepare an annual budget embodying its proposals identifying the manner in which implementation is to be carried out;

- To conduct the business of the Board in such a manner that the entire operations of the Board will be conducted and maintained in order to ensure viability of such operations to the maximum extent possible;
- To implement any other scheme or service in the transport sector, that will enhance the quality of public transport.

The following matters were observed relating to the performance of the year under review in accordance with the Action Plan, Progress Report, and the Budget prepared as per the Corporate Plan relating to the execution of the objectives of the Board in the year 2014.

- (a.) Attention had not been drawn in preparing the Corporate Plan on the following activities that could have been executed in accordance with the powers vested in the Board in terms of Sri Lanka Transport Board Act, No. 27 of 2005.
- Providing bus halts or shelters for the road passengers.
 - Trying to provide bus services for the routes considered by the Board as being difficult or impractical.
 - Supplying and maintenance of places for stopping the busses belonging to the Board.
- (b.) It is necessary to run 7,204 busses in accordance with the daily timetable requirements of the year under review. Despite being targeted to run 5500 busses daily in accordance with the Action Plan for the year 2014, the number of busses run per day in the year under review had been 4,596. As such, 36 per cent of the busses required to be run by the Board per day could not be run, whereas 16 per cent of the busses expected to be run in accordance with the Action Plan for the year 2014, had not been run.

Considering the progress of the Board in running busses during the 03 preceding years in accordance with the information made available by the Planning and Research Division, and the Engineering Division, the number of busses run in the year 2011 had been 60 per cent of the timetable requirement of the Board, and that had gradually increased to 67 per cent by the year 2013, before decreasing to 64 per cent in the year 2014. Moreover, fifty six per cent of the number of kilometers expected to be run by the Board annually, had been run in the year 2011, whereas that number had increased to 60 per cent by the year 2014, but 40 per cent of the number of kilometers expected to be run, could not be achieved.

- (c.) Although it had been planned to run 616,849,447 kilometres in the year under review by making use of the busses in running order, only 371,236,274 kilometres had been run due to the vacancies of drivers and conductors, and technical issues, thus achieving only 60 per cent of the expected target.

- (d.) According to the report on the fleet of busses as of December 2014, of all the 7,669 busses belonging to the Board, 1,770 busses had not been in running order. It was also observed that, of those 1,770 busses, 738 had been older than 15 years. According to the cadre reports of the year under review, the numbers of drivers and conductors are 10,221 and 10,272 respectively. In order to continuously run the entire fleet of busses, the drivers and conductors had not been properly managed. The said status quo of the Board had attributed to the decline in the income, thus hampering the proper and efficient bus service.
- (e.) According to the Action Plan for the year under review, it was targeted to generate a daily route income of Rs. 83 million, but only a sum of Rs. 60 million had been earned. Accordingly, 28 per cent of the expected target could not be achieved.
- (f.) According to the quality reports on the fleet of busses belonging to the Regions as at 31 December of the year under review, the running target set for 7 out of 12 Regions, could not be achieved. Due to reasons such as, non-availability of maintenance equipment and spare parts for the busses, repairs being carried out daily on a considerable number of busses, and failure to repair busses due to lack of economic benefits, a significant number of busses had been discontinued from being run, thus the said objectives could not be achieved.
- (g.) According to the budget of the year under review, the route income expected in the year 2014 had been Rs. 65.21 per kilometer. However, according to the R-51 report, the income per kilometer had been Rs. 59.69 in the year 2014. Accordingly, a target of income amounting to Rs. 5.52 per kilometer could not be achieved.
- (h.) According to the reports of the Training, Research and Development Division, for the year 2014, there had been differences between the annual training targets and actual values. As such, 18 per cent to 60 per cent of the expected targets could not be achieved.
- (i.) The Board maintains 19 Drivers Training Schools, and 03 of them functions under the Head Office. Even though an income of Rs. 32,281,275 had been earned in the year under review through the Drivers Training Schools, the expenses totalled Rs. 37,841,849, thus sustaining a net loss of Rs. 5,560,574. This loss had decreased by about 63 per cent as compared with the preceding year, and the loss had mainly been attributed by the dearth of trained instructors at the Drivers Training Schools, as well as the lack of vehicles that could be used for training purposes.
- (j.) In the wake of Commonwealth Heads of Government Meeting held in Sri Lanka, 68 super-luxury Yutong busses imported therefor, had been received by the Sri Lanka Transport Board in the year 2014. In order to operate those busses, a separate unit was established under the Depot in Moratuwa, thereby providing that Unit with 20 busses. The following matters were observed in that connection.
- (i) In order to productively make use of 20 super-luxury busses for passenger transportation, 32 drivers and 32 conductors were needed. However, only 16 drivers and 12 conductors were assigned to that Unit, thus observing a shortage of 16 drivers and 20 conductors.

- (ii) Repairing 02 busses that had met with accidents in the year 2014 and obtaining insurance indemnities thereon, had not been completed even by 26 December 2017.

- (k) The main objective of the Board is to maintain an efficient passenger transport service by making use of busses. Contrary to the said objective, 47 busses belonging to 06 Depots in the Kalutara Region had been deployed for a function held in Mathugama without levying fees.

4.2 Utilization of Funds

The following observations are made.

- (a.) In view of easy execution of the activities, 23 current accounts had been operated for each objective by the Board at the Head Office alone, and a sum totalling Rs. 2,612,745,132 relating to 9 accounts therefrom, had been transferred to 13 other current accounts, but those funds had not been reimbursed to the relevant bank accounts. As such, the financial activities of the Board had further become complicated without achieving the expected objectives, as well as the financial administration had become even inefficient by complicating the accounting process.

- (b.) In order to control the overdrafts, a separate current account had been opened at the Head Office on 04 September 2012, and all the overdraft balances had been brought thereto. Nevertheless, an overdraft totalling Rs. 1,369,975,617 had existed in 147 bank accounts of the Head Office, regional offices and Depots as at 31 December 2014. As such, the objectives expected by opening the said account, could not be achieved.

4.3 Management Activities

The following observations are made.

- (a.) Even though orders had been placed by the Head Office for purchasing the spare parts for the Depots belonging to the Sri Lanka Transport Board, the suppliers had furnished the items directly to the Depots. However, due to the failure of the Depots in submitting the relevant invoices and the goods received notes to the Head Office as soon as the items had been received, an unsettled balance amounting to Rs. 1,831,859,235 had existed in the Purchase Advance Account of the Head Office as at 31 December 2014. The reasons such as, failure of the management of the Sri Lanka Transport Board in imposing adequate internal laws and rules, failure in conducting adequate supervisions, and failure in carrying out adjustments in a timely manner, had caused this situation.

- (b.) The examination on the information relating to the year under review and 04 preceding years revealed that cashier's balance in arrears amounting to Rs. 2,095,483 for the year 2010, had shown a slight decrease to the value of Rs. 1,538,920 in the year 2011, but that arrears had gradually increased up to Rs. 31,853,602 in the year 2012 and Rs. 36,290,966 by 31 December of the year under review. Attention of the management had not been drawn to rectify this situation.

- (c.) In order to avoid errors and frauds likely to occur with the passenger ticket books, tickets and ticket books should be printed with serial numbers thereby maintaining an internal control. However, 19,950 passenger ticket books containing 100 pages with 10 tickets on each of the pages purchased spending Rs.955,605 from a private institution by the Board in the year 2012, had been printed without serial numbers. Of those ticket books, 9,750 had been issued to the regional office whereas, 6,333 ticket books had been returned to the stores of the Head Office by 31 December of the year under review due to the said error. However, 3,417 books had not still been returned to the Head Office. Action had not been taken to recover the loss incurred in this connection, from the suppliers.
- (d.) Of the ticket books not returned, 500 had been issued to the regional office in Gampaha, and of those books, 40 had been issued to the busses for collecting income from the routes whilst the rest of the 460 books had been retained at the stores of the regional office. As such, the attention of the management had not been drawn as to the issuance of tickets sans serial numbers to the passengers, and the risk of keeping such ticket books at the stores further that could be used to embezzle the income from the routes.
- (e.) Documents for the verification of lands and buildings worth Rs. 319,799,319 owned by the Board, had not been made available to audit. Despite being stated at the audit and management committee meetings and responding to the audit queries that action would be taken to update the register of assets by conducting a survey on assets, it had not been so done even by the end of the year 2016.
- (f.) The annual income from passenger transport generated by 119 Depots relating to 12 regional offices of the Sri Lanka Transport Board totalled Rs. 31,461,130,501 whereas the expenditure totalled Rs. 31,080,779,107 thus showing a profit margin of Rs.380,351,394 but the losses sustained by 62 Depots totalled Rs. 1,242,502,068. Due to reasons such as, lack of busses commensurate with daily timetable requirements, technical faults, and dearth of conductors, the Board had been deprived of an extensive income from the routes daily.
- (g.) In accordance with the approval granted by the Department of Public Enterprises on 30 July 2002 to carry out a comprehensive examination on 66 debit balances valued at Rs. 3,232,231,164 included in dormant balances, and immovable assets and liabilities included in 23 credit balances valued at Rs. 2,010,924,185 thereby writing them off from the books under the knowledge and approval of the Board of Directors, the said assets and liabilities had been written off from the books in the year 2012. As a comprehensive examination had not been carried out thereon, approval of the Board of Directors had not been granted; hence, those items had again been brought to the accounts in the year 2013. Nevertheless, those adjustments had not been rectified even by the end of the year under review.

4.4 Operating Activities

The following observations are made.

- (a.) The loan installments amounting to Rs. 84,733,235 recovered by the end of the year under review from the loans granted to the employees from the **Employees' Penalty Fund Account** in view of employee welfare, had been retained by the Board instead of being credited to that fund.
- (b.) A sum of Rs. 249,486,944 deducted from the salaries of the employees with respect to the loans granted to the employees from the Provident Fund of the Board, had been retained by the Board without being credited to the relevant fund. The Provident Fund of the Board has been annulled at present, and hence, the information as to the settlement of those funds remains questionable in audit.

4.5 Apparent Irregularities

The Board had made a payment of Rs. 66,500,000 in the year 2014 through 66 cheques to a company supplying suspension blades. In the years 2012 and 2013, sums of Rs. 30,550,000 and Rs. 29,100,000 had respectively been paid to that company for purchasing suspension blades. Contrary to Financial Regulation 137 and 138, payments had been made to that company without verifying the receipt of suspension blades. The suspension blades worth Rs. 134,486,075 for which payments had been made in respect of the year under review and the preceding years, had not still been handed over to the Board.

4.6 Identified Losses

The following observations are made.

- (a.) Sums of Rs. 625,095,955 and Rs. 5,240,908,747 to be credited to the Provident Fund of the Board and the Employees' Provident Fund of the Central Bank of Sri Lanka respectively, along with the contribution to the Employees' Trust Fund amounting to Rs. 59,045,730 had not been remitted on time. Hence, surcharges amounting to Rs. 89,743,024 and Rs. 660,178 had remained payable to the Employees' Provident Fund and the Employees' Trust Fund respectively by the end of the year under review.
- (b.) The overdraft facility approved by the People's Bank amounted to Rs. 721.62 million, but the said overdraft increased up to Rs. 745.22 million as at 31 December 2014. A monthly interest amounting to Rs. 10,320,320 was paid in respect of the overdraft at a monthly interest rate of 17 per cent. As a bank surety for the overdraft, a fixed deposit valued at Rs. 325,000,000 was maintained at an interest rate of 8 per cent whilst a balance amounting to Rs. 303,841,753 was maintained in a general savings account. An interest income totalling Rs. 39,647,172 was received by the Board in the year 2014 in respect of the deposits, but the Board paid a sum of Rs. 84,196,667 in the year under review as interest and bank charges for the overdraft.

4.7 Procurement and Contract Procedure

The following observations are made.

- (a.) In terms of Guideline 2.14.1 of the Government Procurement Guidelines, a Procurement Committee should be appointed by the Secretary to the Line Ministry in respect of procurements over Rs. 100 million. Nevertheless, the Board had procured 4000 electronic ticket machines worth Rs. 200,640,792 through the Procurement Committee of the Department.
- (b.) Spare parts valued at Rs. 1,415,503,290 had been purchased under duty waiver during 2011-2014 for the busses of the Sri Lanka Transport Board. The following observations are made in this connection.
 - (i) Considering the annual financial limit of the Board, the procurement of the said spare parts should have been evaluated by a Committee appointed by the Cabinet. However, taking into account only the requirement for 02 months, the supplier had been selected by the Procurement Committee of the Sri Lanka Transport Board, and those purchases had been made from the same supplier from the year 2011 up to the end of the year under review.
 - (ii) Due to deficiencies in the procurement of the said spare parts, the contract had been awarded to the company with the second lowest bid without calling for quotations in respect of spare parts for 26 Depots relating to 2 regional offices.
 - (iii) Both of the companies selected for supplying the said spare parts had not provided spare parts in accordance with the relevant agreements, but no action whatsoever had been taken against those companies. Accordingly, based on the requirement of spare parts of the Depots on each occasion, suppliers had been selected according to the quotations obtained through Fax from the registered local suppliers, and spare parts had not been purchased in stocks. As such, the economic benefits that would have been obtained when purchasing in stocks, could not be obtained by the Board.
- (c.) In the year 2014, the Sri Lanka Transport Board had purchased 2,200 forty two seater and 54 seater busses from Ashok Leyland company of India on lease at a value of US \$ 72,620,000 equivalent to approximately Rs. 10,331,775,516. In purchasing those 2,200 busses, bids had not been called internationally in terms of Guideline 3.1 of the Government Procurement Guidelines; instead, purchase had been made after being evaluated by a Committee appointed by the Cabinet based on the bid furnished by a single supplier. Furthermore, in accordance with the lease agreement for purchasing busses entered into by the Board on 16 May 2014, the number of 2,200 busses should be supplied within a period of 06 months from the date of furnishing the letters of credit whilst a demurrage of 0.01 per cent should be charged in case of a delay as per Condition 26.1 of the agreement. Nevertheless, of the total number of busses that the supplier had agreed upon, only 1,900 busses had been supplied on time whilst the rest of the 300 busses had been supplied after a delay of 01 month and 21 days, but demurrages for delay amounting to Rs. 146,800 had not been recovered thereon as had been mentioned in the agreement.

4.8 Resources of the Board Released to Other State Institutions.

The following observations are made.

- (a.) Contrary to Section 8.3.9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, nineteen security officers of the Board had been released to the line Ministry, whilst 19 other employees had been released to other external institutions. Salaries amounting to Rs. 3,146,776 and Rs. 1,351,400 had respectively been paid for them in the year under review.
- (b.) The security officers of the Sri Lanka Transport Board had been attached to the Department of Motor Traffic, Ministry of Private Transport Services, National Transport Commission, and National Transport Medical Institute. On the basis of reimbursement, a sum of Rs. 40,401,906 had been paid in the year under review as salaries, but only a sum of Rs. 24,438,400 had been reimbursed therefrom as at 31 December 2014. Accordingly, a sum of Rs. 15,963,506 had remained to be further reimbursed.
- (c.) Five motor vehicles obtained by the Board on rent at a monthly rental of Rs. 44,800 had been released to the Ministry of Transport and the office of the Deputy Minister of Transport. Sums of Rs. 748,430 and Rs. 1,142,400 had been paid by the Board as cost for fuel and rental for vehicles respectively in that connection during the year under review.

4.9 Transactions of Contentious Nature

A number of 143 busses costing Rs. 97,462,160 had been handed over to a private institution for refurbishment in the year 2002. However, that institution is not functional by now; accordingly, the risk of those busses being received again by the Board exists, but no adequate disclosure had been made in that connection in the accounts of the year under review.

4.10 Staff Administration

The following observations are made.

- (a.) In accordance with Section 9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, an organizational chart, a Scheme of Recruitment, and a Scheme of Promotion had not been prepared for the Sri Lanka Transport Board, thus failing to obtain approval of the Department of Management Services.
- (b.) Considering the excess and dearth between requirement of drivers and conductors of the Depots of the Board, and the actual number at present, the posts of drivers ranged from an excess of 28 per cent to a dearth of 35 per cent, whilst the posts of conductors ranged from an excess of 51 per cent to a dearth of 36 per cent. However, there had been 25 Depots with excess number of drivers and conductors, but no action had been taken to remedy the dearth of drivers and conductors by attaching the said excess staff to the Depots lacking the drivers and conductors. Furthermore, according to the information presented to the audit as to the staff of the Board assigned to inappropriate duties as at 01 May 2015, a number of 235 drivers and 528 conductors had been assigned to inappropriate duties.

- (c.) Due to lack of an officer of grade I in the actual cadre of the Board so as to be appointed in the capacity of internal auditor, an officer of grade II had been appointed as the chief internal auditor.
- (d.) An officer of grade III A should officiate at the Internal Audit Unit of the regional offices, but vacancies for the officers of grade III A existed at the regional offices such as, Gampaha, Kalutara, Rajarata, Ruhuna, and North.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, financial statements for the year under review and the draft annual report should have been submitted to audit within 60 days of the closure of the year of accounts. However, the financial statements for the year 2014 had been presented on 31 January 2017, after delay of 1 year and 11 months.

5.2 Action Plan

In terms of Paragraph 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 an action plan should be prepared to be able to achieve the objectives and targets within the planned period by clearly identifying Management's responsibility. Nevertheless, the action plan had been prepared without considering the financial position of the Board by including objectives and targets which could not be achieved.

5.3 Internal Audit

The total number of employees in the Internal Audit Unit had been 183 as at 31 December 2014, and 154 of them had directly been involved in auditing whilst 27 had belonged to other staff. The other auditing staff had comprised 153 employees except for the chief internal auditor, and those officers had been attached to the regional offices without considering the number of Depots belonging to the Regions so as to increase the productivity of auditing.

5.4 Procurement Plan

A Procurement Plan had been prepared by the Board in terms of Guideline 4.2.1 of the Government Procurement Guidelines. The procurement activities expected to be carried out within a period of at least 3 years should be listed in the main Procurement Plan in terms of Guideline 4.2.1 (b), but the main Procurement Plan presented had not been so prepared.

5.5 Budgetary Control

The following observations are made.

- (a.) The Sri Lanka Transport Board had prepared the budget and the financial statements for the year 2014 in a manner that they cannot be compared with each other. As such, it was observed that the Board had not looked into the fact as to whether variances had existed between the budgeted income and expenditure, and the actual income and expenditure, thereby not making use of the budget as an instrument of management control for controlling the financial activities of the Board.

- (b.) An examination on the items of income and expenditure that could be compared, revealed variances ranging from 13 per cent to 1621 per cent between the budgeted and actual values of 11 items of income and expenditure of the Board.
- (c.) The budgeted income of the Board totalled Rs. 37,197,553,260, whereas the actual income totalled Rs. 32,780,242,592 thus observing an unfavourable variance of Rs. 4,417,310,668 representing 11.87 per cent.
- (d.) The budgeted expenditure of the Board for the year under review totalled Rs. 33,980,440,679, whereas the actual expenditure totalled Rs. 34,042,371,040, thus observing an unfavourable variance of Rs. 61,930,361.

5.6 Performance of the Environmental and Social Responsibility

As per Regulation No. 03 (c) stated in Motor Traffic Act (Chap. 203) in terms of Gazette Extraordinary, No. 1533/17 of the Democratic Socialist Republic of Sri Lanka, dated 25 January 2008, a certificate of compliance should be obtained for every vehicle being used in Sri Lanka by performing an emission test. According to the information furnished to audit only by the Kandy Region, only 135 out of the total of 595 busses belonging to 07 Depots of the said Region, had passed the emission test whilst 460 busses had been run daily without undergoing emission test. Hence, it could not be ruled out in audit that the busses belonging to the Board had not contributed to the air pollution in Kandy.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

<u>Area of Systems and Controls</u>	<u>Observation</u>
(a.) Control of Fixed Assets	<ul style="list-style-type: none"> (i) Failure to maintain a Register containing information of the busses belonging to the Board. (ii) Failure to vest the custodianship in a manner ensuring the security of the assets. (iii) Weakness in the internal control relating to purchasing and accounting of assets. (iv) Failure to conduct annual verifications.
(b.) Financial Control	<ul style="list-style-type: none"> (i) Failure to take action to promptly recover the funds receivable, and failure to take action to pay the funds payable. (ii) Failure to take action to settle the advances as soon as the completion of the intended purpose, and non-supervision by an authorized officer.

- (iii) Failure to maintain a Register of Advances.
 - (iv) Failure to maintain registers for surety deposits of the employees, and spending the funds of the employee surety deposits on the expenses of the Board.
 - (v) Maintenance of bank accounts without a requirement and failure to reconcile and adjust them by the Financial Division.
- (c.) Control of Income Failure to use the printed invoices with serial numbers for collecting travel pass income.
- (d.) Stores Control
 - (i) An authorized officer not supervising the goods being received by the stores.
 - (ii) Failure to dispose the goods that remained unusable over an extensive period.
 - (iii) Failure to report the information relating to the goods supplied directly to the Depot after being ordered by the Head Office, to the Head Office properly.
 - (iv) Failure to compare the data in the stores and the Depots.