

## **National Transport Commission - 2015**

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The audit of financial statements of the National Transport Commission for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 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 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 this report.

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

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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**

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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 judgement, 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 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**

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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 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 2015 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 Standard 03, an entity must make corrections retrospectively in the first set of financial statements itself once the errors occurred previously are identified. Nevertheless, a sum of Rs. 11,739,604 adjusted in the year under review in respect of the preceding year, had been adjusted to the Accumulated Fund in the year under review.

#### **2.2.2 Accounting Policies**

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Out of the funds received in the year under review for recurrent and capital expenditure, a total sum of Rs. 48,598,792 comprising sums of Rs. 25,223,492 and Rs. 23,375,300 respectively, had been saved. Of the funds allocated for capital expenditure, a sum of Rs. 124,007,439 had been utilized for supplying assets for external institutions. Those assets were either vested or to be vested in the external institutions, and as the policy of writing off that sum against the income in full, had been followed, those assets had not been accounted in any institution. The value of the assets constructed for the external institutions in the year under review and the 03 preceding years alone, amounted to Rs. 403,129,613. It was further revealed that the Commission had incurred a sum of Rs. 106,207,595 on the said assets in addition to the Government grants, and it had been accounted as a revenue expenditure.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a.) As the interest of Rs. 14,373,143 received on short-term deposits amounting to Rs. 468,920,000 as at 31 December 2015 had been reinvested, that interest had been debited to the receivable interest income account instead of being debited to the investment account.
- (b.) A sum equal to the provision for depreciation amounting to Rs. 1,036,399 made on assets valued at Rs. 21,806,808 purchased under the Government grants in the year under review, had not been amortized.
- (c.) A sum of Rs. 18,189,547 received in the preceding year for the acquisition of capital assets, had been accounted as a recurrent receipt instead of being accounted as capital grants. An asset of capital nature valued at Rs. 16,991,221 purchased in the

year under review from capital grants, had been accounted as a project expenditure without being capitalized.

- (d.) The fee of Rs. 525,000 receivable in respect of the lavatories on the *Bastian Mawatha*, had not been accounted.

### **2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions**

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In terms of Section 11 of the Finance Act, No. 38 of 1971, and Section 4.2.2 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003, sums of Rs. 22,902,607, and Rs.9,877,650 had been invested in fixed deposits and Treasury Bills respectively in the year under review without the concurrence of the Minister of Finance, and the approval of the Minister in charge of the subject.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Commission for the year ended 31 December 2015 had been a surplus of Rs. 157,694,985 as compared with the surplus of Rs.162,252,416 for the preceding year. Accordingly, the surplus of the year under review had deteriorated by Rs. 4,557,431 as compared with the preceding year.

In analyzing the financial results of the year under review and 04 preceding years, a surplus of Rs. 186,879,785 and Rs. 16,053,010 had been indicated for the years 2011 and 2012 respectively. However, as the Government recurrent grants had not been received, a deficit of Rs. 186,871,271 had resulted in for year 2013. After adjustments had been made for the employee remuneration, Government taxes, and depreciation on non-current assets, the contribution of the Commission had improved except for the year 2013. Accordingly, the contribution for the year under review amounted to Rs. 316,144,073.

### **3.2 Legal Cases Initiated by / against the Commission**

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External persons and institutions had filed 46 cases against the Commission in connection with the execution of time tables, issue of passenger service permits , cancellation of expressway route permits, removal of the seat reservation office maintained on *Bastian Mawatha*, revision of running times, and failure to make payments for the newspaper advertisements.

## **4. Operating Review**

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### **4.1 Performance**

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It is the mission of the Commission to advise the Government on the national policy relating to passenger transport services, and formulate a regulatory framework ensuring an efficient omnibus transportation system to fulfil the passenger transport needs. The following observations are made in connection with the achievement of this mission.

- (a.) Action should have been taken to advise the Government to revise certain matters on passenger transport included in the transport policy published by the Commission in the year 2009, to be in line with current requirements. Nevertheless, no action had been taken to give such advice to the Government.
- (b.) In fulfilling the passenger transport needs, the National Transport Commission should have been involved in facilitating the bus stands to enable entry for the passengers with special needs to busses and terminals. However, such an involvement had not been made.
- (c.) The following objectives targeted in the Action Plan, could not be fulfilled.
  - (i) Even though it had been planned to operate 40 *Gemisariya* bus services by the end of the year under review, only 14 services had been in operation as at 31 December 2015. As such, a sum of Rs. 13.26 million out of the provision of Rs. 20 million, had not been utilized.
  - (ii) Even though it had been planned to conduct 50 surveys relating to the demand of the passengers and the supply of services in the year under review, 24 surveys had been concluded by the end of the year, and 26 per cent of the provisions had not been utilized.
  - (iii) It had been planned to prepare and execute time tables for 514 inter provincial routes, and rectify and revise the bus fares in the North, North Central, and Eastern Provinces, but, time tables of only 210 inter provincial routes had been modified, and bus fares of only part of the North, North Central, and Eastern Provinces had been revised and rectified. Accordingly, the total progress of this had only been 41 per cent and 65 per cent respectively.
  - (iv) Although it had been planned to erect 250 limited stop name boards island-wide for the bus passengers to easily identify the bus stops for long distance travels, only 19 such boards had been erected by the end of the year under review. Despite the progress of 7.6 per cent in erecting the name boards, 33 per cent of the total provisions had not been utilized thereon.
  - (v) A sum of Rs. 30,000,000 had been allocated in the year under review for the construction of 02 bus stops in *Medagama*, and *Kinniya*, but despite being planned to complete the constructions within the year, only 60 per cent and 50 per cent respectively had been completed even by the end of the year.
  - (vi) According to the Annual Action Plan, it had been planned to renovate 05 temporary resting places for convenience of the long distance travelers. However, that project had not been implemented.

## 4.2 Management Activities

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The following observations are made.

- (a.) With the objective of displaying timetables in the interprovincial busses and the busses running within the province, 07 electronic displays had been installed by the Commission by incurring a sum of Rs. 62,415,360 in the year 2013 at, *Bastian Mawatha*, *Colombo*, *Anuradhapura*, *Kurunegala*, *Nuwaraeliya*, *Kataragama*, *Ranna*, and *Puttalam*. However, all those displays remained non-functional for a period of 02 years. The management of the Commission had failed to reactivate those displays even by 15 June 2016.
- (b.) Of the 16 CCTV cameras installed at the bus terminal on *Bastian Mawatha* in June, 2014 by incurring a sum of Rs. 470,250 enabling its manager and the Chairman of the Commission to inspect the activities thereon from their offices, 09 cameras had remained inoperative from December 2014 up to July 2016, the date of audit. In spite of the cameras being inoperative, a sum of Rs. 742,341 had to be paid in the year under review for the internet connectivity at Rs. 61,862 per month.
- (c.) The issue of permanent licenses for the busses running along *Colombo-Katunayake* expressway, had not been commenced even by 15 June 2016. Furthermore, 65 temporary licenses had been issued for a sum of Rs. 2,500 per day to busses running along the Southern Expressway from 25 July 2015 to various destinations, and action had not been taken even up to June 2016, to issue permanent licenses.
- (d.) Facilitating the National Transport Commission to directly supervise the running of inter provincial busses through satellite technology, 2095 GPS devices had been installed on the busses by incurring a sum of Rs. 79,061,375 and out of them, 1307 devices had remained non-functional as at 31 December 2015 due to poor management and lack of proper maintenance. Hence, the new control room, constructed by incurring a sum of Rs. 37,512,288 had also not been made use of.
- (e.) As the applicants selected for issuing route permits had not presented for collecting the permits, only 21 permits had been issued as at 31 May 2016 although quotations had been called for 84 permits for 14 routes from Colombo and suburbs, to North Eastern areas in the year 2014. Furthermore, quotations had been called for 13 permits relating to 10 routes in the year under review, but only 05 permits had been issued. Due to failure in obtaining an adequate bid security when quotations had been called, it was observed in audit that the selected applicants had not made their presence to collect the permits.
- (f.) The University of *Moratuwa* had been assigned to submit a report by conducting a feasibility study on the possibility of running busses to the main towns via the outer-circular road of the expressway. Accordingly, the University of *Moratuwa* had submitted a draft interim report to the Commission on 04 August 2015, and a sum of Rs. 1,418,310 had been given as advances in that connection on 04 September 2015. However, it was not observed that follow-up action had been taken thereon.
- (g.) As it is the policy of the Government to run all the passenger transport services according to a combined circular timetable, the approval of the Cabinet of Ministers had been obtained for the combined timetable prepared in December 2013 with the

involvement of the National Transport Commission. Nevertheless, it had not been implemented even by 30 September 2016.

#### **4.3 Operating Activities**

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The first stage of the bus stand in *Vauniya*, had been completed in June, 2015 by incurring a sum of Rs. 104,746,181. However, the landscaping of the bus stand had been included in the second stage, but that stage had not been completed even by June 2016. Hence, the bus stand could not so far be made use of.

#### **4.4 Apparent Irregularities**

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In examining the payments on the *Sisuseriya* busses, a sum of Rs. 6,941,862 had been obtained from the Commission under the names of two persons by fraudulently stating that the same bus had been deployed on 02 routes for *Sisuseriya*.

#### **4.5 Underutilization of Funds**

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The Commission had been given a sum of Rs. 685,000,000 by the Treasury in the year under review for the implementation of various projects, but only Rs. 636,401,206 of that, had been utilized. The sum of Rs. 48,598,739 saved due to obtaining funds without a proper forecast, had been invested.

#### **4.6 Transactions of Contentious Nature**

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As gratuity allowances had been calculated inclusive of interim and special allowances in computing the contribution and gratuity allowance for the Employees' Provident Fund and the Employees' Trust Fund, in accordance with Section 47 of the Employees' Provident Fund Act, No. 15 of 1958, and Section 9(2) of the Employees' Provident Fund (amendment), Act, No. 01 of 1985, contributions had been overpaid by sums of Rs. 11,344,443, and Rs. 697,641 respectively.

#### **4.7 Personnel Administration**

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In comparing the actual cadre with approved cadre as at 31 December 2015, seventy six vacancies existed including 16 vacancies at the executive level, and recruitments had been made for 03 of those posts by 31 May 2016. The duties of other executive posts had been covered on acting basis.

#### **4.8 Unresolved Audit Paragraphs**

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It had been revealed at the COPE meeting held on 06 March 2014 that the laws and rules governing the busses running without a valid route permit had not been adequate. Hence, it had been agreed to amend the relevant sections of the Act and present before the Cabinet of Ministers within 02 months. However, the relevant amendments had not been submitted for approval of the Cabinet of Ministers even up to June 2016.

## **5. Accountability and Good Governance**

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### **5.1 Budgetary Control**

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In comparing the budgeted expenditure with actuals for the year under review, variations ranging from 10 per cent to 179 per cent had been indicated with respect to 24 Objects. As such, it was observed in audit that the budget had not been made use of as an effective instrument of management control.

### **5.2 Procurement Plan**

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The following observations are made.

- (a.) Although a main Procurement Plan had been prepared by the Commission for the year 2015 in accordance with Section 4.2.1 of the Government Procurement Guidelines and the format of the Procurement Procedure, a proper approval had not been obtained thereon.
- (b.) Matters such as, information in the Procurement Plan not in agreement with the budget and the Action Plan, items not included in the Action Plan and the budget, had been included in the Procurement Plan, and failure to act according to the Procurement Plan, had been observed.

### **5.3 Tabling of Annual Reports**

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The Annual Report of the Commission should be tabled in Parliament 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. However, Annual Report for the year 2014 had not been tabled in Parliament even by 30 September 2016. In terms of Section 6.5.1 of the same Circular, a draft Annual Report for the year 2015, had not been presented together with the annual accounts.

## **6. Systems and Controls**

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

### **Areas of Systems and Controls**

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### **Observations**

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| (a.) Contract Administration | Failure to abide by the conditions of the agreement, and non- issue of passenger service permits by calling for quotations. |
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- (b.)Utilization of Vehicles Failure to control vehicles in accordance with Financial Regulations and Circulars, and non-maintenance of reports.
- (c.)Personnel Administration Failure to take action to recruit employees for the vacancies.