

Rewards and Incentive Fund - 2016

The audit of financial statements of the Rewards and Incentive Fund of the Department of Motor Traffic for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 213 d (5) of the Motor Traffic Act, (Cap. 203) as amended by Motor Traffic (Amendment) Act, No. 8 of 2009. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 risks 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Rewards and Incentive Fund as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though the income of incentives relating to the year under review amounted to Rs.101,115,117 , it had been shown as Rs.100,497,621 in the financial statements. As such, the income of incentives had been understated by Rs.617,496.
- (b) The incentives totalling Rs.856,597 not paid for the year under review and the preceding year had been brought to account as an income of the year under review instead of accounting under the accrued expenditure.

2.2.2 Unexplained Differences

According to the statement of financial performance, the expenditure on incentives of the year under review amounted to Rs.96,423,178 it had been shown as Rs.96,169,280 in the relevant schedule. As such, a difference of Rs.253,898 was observed.

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

In terms of the Public Finance Circular No.PF/423 of 22 December 2006, any surplus money remaining after the settlement of payables and other liabilities relating to the activities of the Fund should be transferred to the Consolidated Fund immediately. Nevertheless, the surplus money amounting to Rs.18,132,382 existed in the Fund as at 31 December 2016 had not been transferred to the Consolidated Fund. Further, the reports for each quarter on the progress as compared with the accounts of the Fund had not been furnished to the Director General of Public Finance.

2.4 Transactions Not Supported by Adequate Authority

Incentives had been paid for the staff in the year under review as well as in the preceding years without obtaining the necessary instructions on the payment of all allowances and incentives after consulting the National Salaries and Cadre Commission in terms of Sub-paragraph 06(c) of the Public Administration Circular No.06/2006 of 25 April 2006. A sum of Rs.96,423,178 had been spent in the year under review for the payment of incentives in

accordance with a methodology prepared by the Sri Lanka Institute of Development Administration.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.2,692,728 as compared with the corresponding surplus of Rs.3,032,467 for the preceding year, thus indicating an deterioration of Rs.339,739 in the financial results of the year under review as compared with the preceding year. The decrease in incentive income by Rs.14,481,756 or 14 per cent in the year 2016 as compared with the year 2015 had been the main reason for the said deterioration.

4. Operating Review

4.1 Performance

According to the Directive No.3 given in terms of Section 213 (d) of the Motor Traffic Act, it had been emphasized that money of the Rewards and Incentive Fund could be spent on various purposes in addition to the payment of incentives. Nevertheless, it was observed that more than 95 per cent of the receipts of the Fund had been spent only for the payment of incentives. Accordingly, attention of the responsible parties had not been paid to spending money of the Fund on the following objectives.

- (a) Payments made for the persons who provide information about the persons who are involved in manufacturing, producing, assembling, designing, adapting , modifying and changing any motor vehicle without obtaining the approval of the Commissioner General of Motor Traffic.
- (b) Payments made for the persons who are involved in identification and reveal the wrongful acts.
- (c) Payment for trainings and educational activities of the staff of the Department subject to a maximum limit of Rs.100,000 per year.
- (d) Payment for the activities of the staff of the Department who need complementary or special appreciation subject to a maximum limit of Rs.50,000 per year.

4.2 Operating Activities

Even though the fees charged in transferring vehicles imported under concessionary permits are not relevant to the incentive scheme, one per cent of those fees had been credited to the Incentive Fund. Sums amounting to Rs. 6,160,646 and Rs.1,273,712 had been credited to the Incentive Fund in the years 2014 and 2015 respectively, and those money were retained in the Incentive Fund even by the end of the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances from 65 per cent to 100 per cent between the budgeted expenditure and the actual expenditure of 06 Objects and the non-availability of Revenue Estimates relating to 02 Items of Revenue were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.2 Action Plan

Even though an Action Plan should be prepared by the Fund in terms of Public Finance Circular No.01/2014 of 17 February 2014, an Action Plan for the year 2016 had not been prepared by the Fund.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General. Special attention is needed in respect of following areas of systems and controls.

Areas of Systems and Control

Observations

(a) Accounting

Failure to compute and account for the incentives properly.

(b) Financial Control

Non- maintenance of separate ledger accounts for bank accounts.