

National Transport Commission – 2016

The audit of the financial statements of the National Transport Commission 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(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

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 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 the 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 Opinion

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 2016 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 Accounting Deficiencies

The following observations are made.

- (a) As the recurrent projects expenditure of Rs.38,299,494 relating to the year under review incurred on Sisu Seriya, Gamisariya and Nisiseriya had been under accounted, the project expenditure and current liabilities of the year under review had been understated by that amount.
- (b) Lavatory system income of Rs.577,500 received in the year under review relating to the previous year had been adjusted to the profit of the year under review and as such the profit had been overstated by that amount.
- (c) Out of the revenue of Rs.6,051,650 received from the issue of 5 new road permits in the year under review, a sum of Rs.453,812 had related to the ensuing year but accounted as an income of the year under review and as such the profit had been overstated by that amount.
- (d) The bus terminal at Vauniya had been constructed in the land acquired by the Commission for 33 years on long term lease basis. The capital expenditure of Rs.139,458,951 and Rs.46,020,612 incurred during the period 2011 to 2015 and 2016 respectively had been brought to accounts as recurrent expenditure and as such the total assets as at 31 December 2016 had been understated by Rs.185,479,563.

2.2.2 Lack of evidence for audit

A sum of Rs.3,564,211 had been spent as fuel expenses in the year under review for 17 vehicles of the Commission. Particulars of fuel expenses of each motor vehicle relating to a sum of Rs.1,833,295 thereof and the log books and monthly performance summaries for the motor vehicle transferred from the Ministry were not made available for audit.

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

The following non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Finance Act No.38 of 1971 (i) Section 10 (5)	All sums remaining out of the net surplus revenue of a Public Corporation in any year should be paid to the Consolidated Fund. However, even though there were surpluses from Rs.109 million to Rs.190 million from the year 2014 to 2016 in the Commission, any money whatsoever had not been credited to the Consolidated Fund.
(ii) Section 11 of the Act and Section 8.2.2 of Public Enterprises Circular No.PED/12 of 02 June 2003.	Without obtaining the sanction of the Minister of Finance and the approval of the Minister in charge of the subject, a sum of Rs.588,256,504 had been invested in Treasury Bills and Fixed Deposits on the approval of the Chairman.
(b) Section 47 of the Employees Provident Fund Act No.15 of 1958 and Section 9(2) of the Employees Trust Fund (amendment) Act No.01 of 1985.	In computing Employees Provident Fund contributions and Employees Trust Fund contributions, interim allowance and adjustment allowance should not be taken into account. Nevertheless, those allowances had been taken into account in computing contributions and as such sums of Rs.3,379,315 and Rs.675,863 had been over paid to the Employees Provident Fund and the Employees Trust Fund respectively.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Commission for the year ended 31 December 2016 had been a surplus of Rs.190,189,747 as compared with the surplus of Rs.136,306,073 for the preceding year, thus an improvement of Rs.53,883,674 in the financial result for the year under review as compared with the preceding year. The increase of road permit tender revenue in the year under review by Rs.41,170,062 had mainly attributed to this improvement.

In analyzing the financial result of the year under review and the preceding 4 years, a deficit was indicated in the year 2013, but a surplus was indicated in each year 2012, 2014, 2015 and 2016. However, in re-adjusting the employees remuneration and depreciation on current assets to the financial results, the favourable contribution of Rs.109,057,130 of the Commission in the year 2012 had become a minus contribution of Rs.80,262,665 in the year 2013. The commission had a favourable contribution of Rs.248,102,525 again in the year 2014 and it had continuously increased up to Rs.341,328,228 in the year 2016.

3.2 Legal events initiated against the Commission or by the Commission

The following observations are made.

- (a) Nine court cases had been filed against the Commission by external parties in respect of the cancellation of passenger services permits and the reservation of seats and 5 cases had been filed against the conditions published in the procurement notices in respect of issuing its service permits. Four court cases had also been filed against the Commission by employees.
- (b) The Commission had filed 4 court cases against 4 external parties in respect of running buses without a valid passenger services permits in the year under review.

4. Operating Review

4.1 Performance

To instruct the government on the national policy relating to passenger transport and the preparation of a monitoring frame work required to ensure the efficient bus transport system for fulfilling Public Transport requirements is the mission of the Commission. The following observations are made in the achievement of it.

- (a) Certain matters relating to passenger transport included in the Transport Policy promulgated by the Commission in the year 2009, should be revised to suite for current situation and action should be taken to advise the government accordingly. However, action had not been taken to give such advice to the Government.
- (b) The following targets planned according to the annual action plan could not be completed.
 - (i) Even though 50 surveys on passenger demand and supply of services had been planned to be conducted during the year under review, only 31 surveys had been conducted by the end of the year under review.
 - (ii) Even though it was planned to prepare and implement combined bus time tables of 514 Inter Provincial Roads during the year under review, time tables of only 234 roads had been prepared. However, buses had not been run under those time tables in those routes.
 - (iii) It was planned to set up 250 limited stop sign boards island wide, so that the passenger would be able to identify distant bus stops easily and a provision of Rs.0.5 million had been made thereon. However, no any sign boards had been set up during the year under review.

- (iv) According to the action plan, it was planned to build Jaffna Bus terminal in the year 2016 and made a provision of Rs.100 million in order to complete 60 per cent of works but only 3 per cent of the works had been completed. Furthermore, it was planned to build Kilinochchi bus terminal and made a provision of Rs.25 million to complete 80 per cent of works in the year under review, but only the procurement activities had been carried out during the year under review.
- (v) Action had been taken to establish a G.P.S Computer Software facility system for the observation of information on buses and passengers from the office of the commission and computers valued at Rs.17,570,635 had been purchased therefor during the year under review. Even though it was planned to fix relevant equipment to 3216 buses under this system to get information, relevant equipment had been installed only in 375 buses. Accordingly, 88 per cent of the anticipated targets could not be achieved.
- (c) Tenders had been called for the issue of permits to passenger buses in 13 roads on 09 June 2015 and 93 applicants had applied for all those roads. However, only 5 permits relevant to 5 roads had been issued and the balance permits had not been issued even by 19 May 2017, the date of audit.

4.2 Management Activities

The following observations are made.

- (a) Out of the provision of Rs.75,000,000 received by the Commission from the Treasury in the year under review for the upliftment of private bus industry and upliftment of service quality of buses and the development of infrastructure facilities, it was planned to construct Hingurgoda bus terminal and renovation of Batsian Mawatha bus terminal. Nevertheless, without carrying out those works a sum of Rs.43,000,000 had been invested in Treasury Bills and fixed deposits and a sum of Rs.26,106,954 had been returned back to the Treasury at the end of the year.
- (b) The manner for charging passenger services permits had not been stated in the National Transport Commission Act and those permits had been issued by charging an annual fee of Rs.3,000 on a decision of the Board of Directors. Those permits are allowed to transfer to another person only on kinship and those permits had been issued under an annual fee of Rs.15,000, but the permits were issued since the year 2010 only under the tender procedure. Accordingly, the permits had been issued under 3 types of fees for the same road and as such the recovery of fees for road permits had a severe imbalance and the attention of the Management had not been paid in this connection. However, out of the total permits of 3277 issued up to 28 May 2017, 70 per cent or 3000 permits had been issued under an annual license fee of Rs.3,000 while 22 per cent of the total permits had been issued on an annual renewal fee of Rs.15,000.

- (c) In terms of Section 25(b) of the National Transport Commission Act, passenger services permits should be issued for an enforceable period of not less than 01 year and not more than 3 years. However, during the period from 25 July 2015 to 28 December 2016, temporary passenger services permits had been issued to 65 luxury buses and 2 normal buses in the express way by charging Rs.2,500 per day. Accordingly, the National Transport Commission had deprived of a massive revenue as a result of not issuing passenger services permits based on the minimum bid value selected by calling for tenders.
- (d) According to the information made available to audit, the number of route permits to be issued to 30 roads identified by the Commission on which buses required to be used amounted to 141. However, the Commission had failed to issue those permits during the period from the year 2016 up to 28 May 2017, the date of audit and as such an efficient and sufficient passenger transport service, enabling to meet the passenger demand at inter provincial and national road services levels, resulting that the Commission had deprived of the receipt of route permit revenue.
- (e) The Commission had installed 7 electronic boards in key points at Bastian Mawatha Colombo, Anuradhapura, Kurunegala, Nuwaraeliya, Kataragama, Ratnapura and Puttalam by incurring an expenditure of Rs.62,415,360 in the year 2013 with the objective of displaying time tables of running buses within the province and inter provinces. However, all those boards had become inoperative since a period of 3 years but the Management had not paid the attention thereon.
- (f) Out of the 16 CCTV Cameras installed in June 2014 by incurring an expenditure of Rs.470,250, enabling to observe the activities of the Bastian Mawatha Bus Terminal by the Manager thereof and the Chairman of the Commission within their offices itself, 14 cameras out of 16 had been inoperative even by the end of the year under review. Action had not been taken to re-activate that Camera System up to the date of audit on 06 June 2017.
- (g) A lavatory system had been set up at Bastian Mawatha, Colombo by the Commission to facilitate sanitary needs of passengers who engage in inter Provincial transportation and an entity had been selected and entered in to an agreement by the Commission in order to recover its charges and maintain, having being cleaned. According to that agreement, a fee of Rs.7 can be charged from a passenger at a time. Contrary to that a fee of Rs.20 had been charged from a passenger without the approval of the Commission but the Management had not drawn its attention thereon.
- (h) A bus terminal had been constructed in the year 2015 at the Vauniya Town by incurring an expenditure of Rs.166,393,051 as a main bus transit centre in the Northern Province. Even though the construction works thereof had been completed and handed over by the contractor on 15 January 2017, the terminal had not been used even up to 28 September 2017, since that date and allowed to be idle. Nevertheless, a cost of Rs.2,807,541 had been incurred during that period on employees salaries, cleaning charges, electricity and water bills, but the responsible parties had not taken action to utilize the bus terminal.

4.3 Identified Losses

In the publication of tender notices in newspapers in respect of passenger permits on 08 August 2016 under tender No.23 it had to be published 4 times in the newspapers as it had not been correctly prepared and as such the Commission had to incur an additional cost of Rs.417,746.

4.4 Delayed Projects

According to the action plan for the year under review, 4 projects which should have been completed on 31 March 2016, 30 September 2016 and 31 December 2016, the estimated cost of which amounted to Rs.76,524,812 had not been completed even by 18 May 2017.

4.5 Personnel Administration

As compared the approved cadre with the actual cadre as at 31 December 2016 there were 35 vacancies in posts and an excess in 3 posts. Of the vacant posts, 5 posts had been at executive level and recruitment for those posts had not been done even by 29 August 2017. However, duties of such posts had been covered on acting basis. As the post of Director (Finance and Procurement) had fallen vacant it had been a hindrance to the proper delegation of financial authorities and procurement process.

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 be submitted to audit within 60 days after the closure of the year of accounts. However, the financial statements for the year 2016 had been presented to audit after a delay of 65 days that is 05 May 2017.

5.2 Procurement Plan

Even though, a procurement plan had been prepared by the Commission, a detailed procurement plan and a procurement time table had not been prepared in terms of Paragraph 4.2.1 and 4.2.2 of the Procurement Guidelines.

5.3 Budgetary Control

As variations ranging from 10 per cent to 189.2 per cent were observed in comparing the budgeted income and expenditure with actuals, the Budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed in audit had been brought to the attention of the Chairman of the Commission from time to time. Special attention is needed in respect of the following areas of control.

Area of System and Control	Observations
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(a) Issue of passenger services permits	Passenger services permits not issued by calling for bids. Issue of permits with delays, non-maintenance of updated registers indicating permit details.
(b) Procurements	Non- preparation of a detailed Procurement Plan and procuring without following procurement methodology.
(c) Personal Administration	Non-taking action to recruit employees for vacant positions.
(d) Financial Control	Non-utilisation of funds received from the Treasury for the relevant purposes.