

National Transport Medical Institute – 2016

The audit of financial statements of the National Transport Medical Institute 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 18 of the National Transport Medical Institute Act, No.25 of 1997. My comments and observations which I consider should be published with the Annual Report of the Institute 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 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 Institute’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 Institute’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

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Transport Medical Institute 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

- (i) According to Section 48 of the Standard, assets and liabilities shall not be offset unless required or permitted by Sri Lanka Public Sector Accounting Standards. However, contrary to it, a debit balance of Rs.170,387 included in the balance of accounts payable amounting to Rs.34,734,817 existed as at 31 December of the year under review, had been understated. As such, the balance receivable and payable had been understated in the financial statements by that amount.
- (ii) According to Section 76 (c) of the Standard, assets expected to be realized within 12 months after the reporting date shall be classified under current assets and all other assets under non-current assets. Nevertheless, the total balance itself of the Distress Loan amounting to Rs.18,684,591 had been classified under current assets.

(b) Sri Lanka Public Sector Accounting Standard 07

Six items of fixed assets costing Rs.14,904,369 had been fully depreciated as the useful life of non-current assets had not been reviewed annually. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Unexplained Differences

Even though a sum of Rs.7,305,478 had been shown in the financial statements as receivables as at the end of the year under review for issuance of medical certificates by the Institute to the Sri Lanka Transport Board, according to the financial statements of the Sri Lanka Transport Board, the amount payable was Rs.8,352,322, thus indicating a difference of Rs.1,046,844 between the accounts of the National Transport Medical Institute and the accounts of the Sri Lanka Transport Board.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even by 30 June 2017, the date of audit, to recover a sum of Rs.742,312 receivable for the years 2011 and 2012 to the Medical Institute from the Metropolitan Bus Company.
- (b) Sums of Rs.7,305,478 and Rs.5,889,022 recoverable as at the last date of the year under review from the Head Office of the Sri Lanka Transport Board and the Driver Training School of Kalutara respectively to the Medical Institute and out of those values, sums of Rs.3,125,056 and Rs.2,988,254 were balances older than 650 days.
- (c) Sums of Rs.9,595,290 and Rs.17,734,076 had been shown respectively in accounts as bus permit fees and security fees payable to the Sri Lanka Transport Board by the Medical Institute as at 31 December of the year under review and action had not been taken from a period of over 650 days to settle sums of Rs.1,470,832 and Rs.5,576,893 out of the said bus permit fees and security fees respectively.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules and Non-compliances Regulations

- | | |
|--|---|
| (a) Section 47 of the Employees' Provident Fund Act, No.15 of 1958, Section 9(2) of the Employees' Provident Fund (Amendment) Act, No.1 of 1985 and Section 44 of the Employees' Trust Fund Act, No.16 of 1980 | In the computation of contributions for the Provident Fund and the Employees' Trust Fund, interim allowances and special allowances should not be applied. However, contributions had been computed by applying those allowances. As such, overpayments of Rs.5,648,901 and Rs.1,412,225 had been made in the year under review to the Employees' Provident Fund and the Employees' Trust Fund. |
|--|---|

- (b) Section 11 of the Finance Act, No.38 of 1971 and Section 8.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 In the investment of monies owned by the Institute, the concurrence of the Minister of Finance and the approval of the relevant Minister should be obtained. However, the Medical Institute had invested sums of Rs.78,423,506 and Rs.635,895,811 in fixed deposits and Treasury Bills respectively at the end of the year under review only on the approval of the Board of Directors.
- (c) Public Finance Circular No. PF/PE 5 of 11 January 2000 Allowances amounting to Rs.3,995,040 had been paid to Medical Officers and officers of the Health and Medical Service based on the circulars issued by the Ministry of Health without the approval of the Treasury.
- (d) Public Administration Circulars

- (i) Circular No. 7/2015 of 26 March 2015 The Institute had granted approval to pay festival advances of Rs.30,000 to officers on the basis of recovery in 10 instalments contrary to provisions of circulars. As such, an overpayment of festival advances amounting to Rs.4,210,500 had been made in the year under review.
- (ii) Circular No.29/2014 of 29 December 2014 Even though the special advance entitled to public officers amounts to Rs.4,000 , advances up to Rs.25,000 had been made exceeding that amount. Accordingly, a sum of Rs.2,746,000 had been overpaid as special advances in the year 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2016 had been a surplus of Rs.281,778,132 as compared with the corresponding surplus of Rs.249,514,250 for the preceding year, thus indicating an improvement of Rs.32,263,882 in the financial result for the year under review, as compared with the preceding year. Even though the administration expenditure had increased by Rs.30,019,698, the increase in income from medical services and interest income from fixed deposits and Treasury Bills respectively by Rs.45,814,543 and Rs.30,999,663 had been the main reason for the above improvement.

An analysis of the financial results of the year under review and 04 preceding years revealed that even though there had been a deficit of Rs.13,979,213 in the year 2012, there was a surplus from the year 2013 up to the year under review. In readjusting the employees' remuneration and depreciation for non-current assets to the financial result, the positive contribution of the Institute which was Rs.91,499,130 of the year 2012 had improved continuously to Rs.580,079,715 in the year 2016.

4. Operating Review

4.1 Performance

- (a) According to Section 3 of the National Transport Medical Institute Act, No.25 of 1997 the functions of the Institute are as follows.
- (i) To provide medical services and assistance to drivers and operators, operating or driving all categories of motor vehicles including heavy duty vehicles and furnish certificates of physical and mental fitness to such drivers and operators.
 - (ii) To provide medical services and assistance in cases of accidents involving any category of motor vehicles and provide advice and special guidance relating to the quantum of compensation or damages payable in cases of accidents.
 - (iii) To appoint a panel of suitable medical officers to various districts for the purpose of discharging its functions and render medical advice and recommendations on industrial hygiene and industrial accidents.
 - (iv) To ensure either by itself or in consultation with other agencies that motor vehicles of all descriptions are operated or driven by persons who are physically and mentally fit and competent.
 - (v) To set standards and prescribe parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities.
- (b) Nevertheless, services such as providing medical services and assistance to the drivers or operators operating or driving all categories of motor vehicles including heavy duty motor vehicles, providing medical services and assistance in the case of accidents involving any category of motor vehicles, providing medical advice and recommendations on industrial hygiene and industrial accidents, providing advice and special guidance relating to the quantum of compensation or damages payable in cases of accidents, setting standards and prescribing parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities, setting limitations and providing medical assistance to the drivers and operators serving in the Private Bus Companies had not been carried out.

4.2 Management Activities

The following observations are made.

- (a) A portion of the land allocated for the vehicle park of the Medical Institute had been provided on rent basis without calling for tenders to a private institution for parking vehicles since the year 2012 and a written agreement had not been entered into therefor. Moreover, the income of Rs.1,100,000 from rent in the preceding year had decreased to Rs.990,000 in the year under review. Nevertheless, attention had not been paid thereon.
- (b) Surplus cash balances exceeding Rs.58,277,640 monthly had been inactively maintained in 04 current accounts in the year under review without an interest income throughout the year. Attention had not been paid to invest those surplus monies in an effective manner.
- (c) The Medical Institute had rented out a building to the National Transport Board and had been charging a rent of Rs.5,000 monthly from a period before the year 2004 therefor. A written agreement had not been entered into by both parties in respect of this and steps had not been taken to revise the monthly rent in accordance with the present market value by obtaining a valuation report.

4.3 Delayed Projects

Repairs had been commenced in the year 2013 relating to the second floor of the building of the Medical Institute for operating of office activities and a sum of Rs.4,639,631 had been spent therefor by 31 December 2016. As repairs had not been fully completed, 5,600 square feet of space in that floor had remained idle even by 23 June 2017 without been made use of for any other purpose whatsoever.

4.4 Procurement Process

The Departmental Procurement Committee had decided on 04 June 2016 to obtain the service of the institution that had submitted the minimum quotation out of the bids submitted for obtaining security service for the Institute. However, the Institute had sustained a loss of Rs.5,168,194 from January 2016 to 30 June 2017 by obtaining security services from the Sri Lanka Transport Board under higher quotations. Moreover, in terms of Section 8.9.1 (a) of the Procurement Guidelines, proper agreements should be entered into for contracts exceeding Rs.500,000. Nevertheless, in obtaining that service, the Institute had not entered into a written agreement with the Sri Lanka Transport Board.

4.5 Staff Administration

The following observations are made.

- (a) The Department of Management Services had approved a cadre of 215 for the Western Provincial offices and other provincial offices in the year 2008 considering the requirement of the Institute. However, approval had not been obtained for a Recruitment and Promotion Scheme including salary scales. The actual cadre of the Institute stood at 339 as at 31 December 2016, thus observing an excess and vacancies of 165 and 41 officers respectively.

- (b) Even though an excess cadre existed in the Institute, the posts of General Manager and Chief Accountant which are necessary for administrative activities of the Institute had been vacant. As such, a problematic situation had arisen in respect of delegation of administrative and financial authority.
- (c) Despite having recruited 124 permanent officers exceeding the approved cadre for the posts approved in the Institute, 144 officers had been recruited on contract, daily pay and part time hourly basis without the approval of the Department of Management Services.
- (d) Even though the approved cadre of Medical Officers of the Institute stood at 26, only 11 Medical Officers had been recruited therefor while 127 Medical Officers had been recruited on contract and casual basis without filling the vacancies of 15 Medical Officers on permanent basis. Moreover, recruitments had not been made for the vacant posts of Medical Officer even by 07 June 2017, the date of audit.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review should be presented to audit within 60 days of the closure of the year of accounts. However, the financial statements had been presented on 06 June 2017 with a delay of 03 months.

5.2 Budgetary Control

Variiances ranging between 11 per cent and 373 per cent relating to 18 Items of Revenue and variiances ranging between 11 per cent and 396 per cent relating to 34 Items of Expenditure were revealed in the comparison of the budgeted and the actual income and expenditure of the Institute for the year 2016, thus observing that the budget had not been made use of as an effective instrument of management control.

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 Institute from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

- | | |
|--------------------|---|
| (a) Stock Control | Action not taken to maintain an optimum stock level in order to minimize urgent purchases of drugs. |
| (b) Income Control | Action not taken in a transparent manner for renting and leasing of properties of the Institute by following a Procurement Process and collection of income during specified periods. |

- | | |
|-----------------------------------|--|
| (c) Issue of Medical Certificates | Non-maintenance of a Network Information System on the issue of Medical Certificates by every Branch. |
| (d) Staff Loans Control | In making payments superseding the circular instructions, payments made only on the approval of the Board of Directors without obtaining approval of the Treasury. |
| (e) Contract Administration | Procurement of Cleaning and Security Services without entering into service agreements. |
| (f) Investments | Investment of funds of the Institute externally without proper approval and maintenance of surplus amounts in current accounts in an underutilized manner. |
| (g) Utilization of Motor Vehicles | (i) Action not taken in terms of the relevant Financial Regulations and Circulars.

(ii) Non-maintenance of Motor Vehicle Log Books and particulars of Motor Vehicles. |