

National Transport Medical Institute – 2018

1.1 Opinion

The audit of the financial statements of the National Transport Medical Institute for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the National Transport Medical Institute as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the **Medical Institute's** ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the **Medical Institute** or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the **Medical Institute's** financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Medical Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Medical Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute
- Whether the Medical Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Medical Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

| Audit Observation | Comments of the Management | Recommendation |
|---|--|--|
| ----- | ----- | ----- |
| <p>It was observed that out of the accounts balance of Rs.14,709,918 receivable as at 31 December 2018, a balance of Rs.9,961,937 was older than 650 days and it represented 67.72 per cent of the total receivable balance. Similarly, a sum of Rs.742,312 had remained unrecovered from a private bus company for over 03 years as at 31 December 2018 and action had not been taken to recover those monies.</p> | <p>Since a bus company named Metropolitan is not in operation at present, letters have been referred to the Chairman of the Sri Lanka Transport Board regarding that matter.</p> | <p>Necessary steps should be taken to recover the balances in arrears.</p> |

1.6.2 Funds Payable

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| Out of Rs.33,588,765 payable by the Institute as at 31 December 2018, a sum of Rs.6,990,722 or 21 per cent remained unsettled for over a period of 650 days. | A sum of Rs.9,428,298 has been paid in the year 2019 and action will be taken to settle the balance amount. | Action should be taken to expeditiously settle the old balances or credit to the Revenue if there is no further responsibility to settle the same. |

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules and Regulations | Non-compliance | Comments of the Management | Recommendation |
|--|--|--|---|
| (a) Section 06 of the National Environmental Act, No.47 of 1980 as amended by the Acts, No.53 of 2000 and No.56 of 1988. | A proper methodology had not been adopted relating to dispose of laboratory equipment such as needles, cotton etc. and waste removed after using for medical tests and those had been collected in the Institute's premises causing damages to the environment. | Action is due to be taken to find out a place where such waste is accepted and take steps accordingly. Enquiries in this connection have been made from the Government Institutions. | Waste disposal should be carried out in accordance with proper methodology. |
| (b) Section 11 of the Finance Act No.38 of 1971 and Section 8.2.2 of the Public Enterprises Circular No/PED/12 dated 02 June 2003. | Without being obtained approval of the Minister of Finance and the Minister concerned, the Institute had invested money in fixed deposits, Treasury Bills and Treasury Bonds upon the approval of the Board of Directors and there was a balance of Rs.857,072,581 as at 31 December 2018. | Not replied | Relevant approval should be obtained. |

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

Financial Regulation 757

| | | | |
|---|---|--|--|
| | The Board of Survey Reports for the year 2018 had not been presented. | Board of Survey Report is due to be presented to the relevant Divisions. | Board of Survey Reports should be furnished within due period. |
| (d) State Finance Circular No.PF/PE 5 dated 11 January 2000. | Without being obtained approval of the General Treasury, a sum of Rs.41,687,959 had been paid to the employees of the Institute as attendance allowances. | Only the approval of the Board of Directors has been obtained. | Relevant approval should be obtained. |
| (e) Circular No.SB/02/01 dated 25 September 2015 of the Secretary to the President. | Contrary to the provisions of the Circular, a sum of Rs.2,546,685 had been spent for the conduct of employees get together party in a hotel of the Kandy district on 24 December 2018. | Only the approval of the Board of Directors has been obtained. | The management should ensure the economical use of funds in terms of the provisions of the Circular. |
| (f) Section 9.12 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. | Action had been taken to provide passenger passes for the welfare of the employees of the Institute and an expenditure of Rs.9,428,298 had been incurred thereon during the year under review. Nevertheless, steps had not been taken to obtain approval of the Department of Public Enterprises and the General Treasury for that purpose. | Only the approval of the Board of Directors has been obtained. | These types of expenditure should be incurred only after obtaining the proper approval of the relevant institutions. |

2. Financial Review

2.1 Financial Results

The operations of the Institute for the year under review had resulted in a surplus of Rs.339,605,034 as compared with the corresponding surplus of Rs.236,394,046 for the preceding year, thus observing an improvement of Rs.103,210,988 in the financial result. This improvement was mainly attributed to the increase in the Medical Certificate service income and the investment interest income by Rs.126,606,687 and Rs.3,531,217 respectively.

3. Operating Review

3.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| (a) According to the Action Plan 2018, the Institute had planned to construct two buildings for the Anuradhapura and Kandy branches. Since necessary approval had not been obtained, constructions of the buildings on those lands had not been commenced even by April 2019. As such, these offices are maintained in the rented buildings at present and a sum of Rs.696,875 and Rs.1,096,500 had been paid as rentals respectively for the Anuradhapura branch and Kandy branch during the year. | Matter has been referred seeking Cabinet approval. | Action should be taken to discharge functions without being confined to the activities included in the Action Plan. |
| (b) Even though the special advance granted to the Public Officers amounted to Rs.4000, it had been increased up to Rs.25,000 on the approval of the Board of Directors and special allowance of Rs.852,830 had been paid to the officers during the year. Although the Institute should obtained approval of the Department of Public Enterprises to make such overpayments, action had not been taken accordingly. | Only the approval of the Board of Directors has been obtained. | Approval of the Department of Public Enterprises should be obtained for this purpose. |

- | | | |
|---|---|---|
| <p>(c) Under the approval of the Board of Directors the Institute had grant approval to provide festival advance of Rs.30,000 to the officers on the basis of recovery in 10 instalments and Rs.5,340,500 had been paid as advances during the year. As the payment of festival advances of Rs.30,000 was not in conformity with the existing Government provisions, approval of the Department of Public Enterprises had not been obtained to make such payment.</p> | <p>Only the approval of the Board of Directors has been obtained.</p> | <p>Approval of the Department of Public Enterprises should be obtained for making payments exceeding the limits approved by the Government.</p> |
|---|---|---|

3.2 Operating Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|---|--|
| ----- | ----- | ----- |
| <p>The functions to be discharged in terms of Section 3 of the National Transport Medical Institute Act No.25 of 1997, viz, to provide medical services and assistance in the cases of accidents involving any category of motor vehicles, to provide advice and special guidelines relating to the quantum of compensation or damages payable in cases of accident, to appoint a panel of suitable medical officers to various districts and provinces for the purpose of discharging its functions, to render medical advice and recommendations on industrial hygiene and industrial accidents, to ensure either by itself or in consultation with other agencies, that motor vehicles of all descriptions are operated or driven only by persons who are physically and mentally fit and competent and to set standards and prescribe parameters regarding transport medicine to be adopted and implemented by the relevant implementing authorities, had not been discharged by the Institute.</p> | <p>Since the functions included in the Act had been divided by the Acts such as Road Security Act enacted in certain instances, action will be taken to amend those functions at the time of amending the Act in subsequent instance.</p> | <p>Management should take steps to discharge/implement functions that had been stated in the Act as to be discharged by the Institute.</p> |

3.3 Deficiencies in the Contract Administration

| Audit Observation | Comments of the Management | Recommendation |
|--|--|--|
| (a) With the use of Rs.5,319,926 or 13 per cent of the balance amount of the 01 st stage of the repairs of the first floor of the Head Office main building, additional works not included in the original estimate and valued at Rs.4,923,737 had been carried out. | Additional works had been carried out in accordance with the requirements. | Approval should be obtained in respect of carrying out additional works not included in the original estimate. |
| (b) For the construction works of the 02 nd stage relating to renovation of the building , the contract worth Rs.43,923,641 had been awarded to the above contractor on the basis of completion of the contract by 21 January 2019, whereas agreed works had not been completed even by 30 April 2019. Nevertheless, liquidated damages had not been recovered from the contractor in terms of the agreements. In making payments for the completed works of the contract, a sum of Rs.807,848 had been overpaid to the contractor together with the VAT. Similarly, 4 items the estimated cost of which was Rs.1,448,776 had not been completed with the use of building materials in prescribed specification as agreed by the agreement and consultation approval too had not been obtained thereon. | A concurrence had been reached at the meetings held on the renovation activities with regard to timeframe relating to the completion of works. Action will be taken to recover the liquidated damages in future. | Action should be taken in terms of conditions in the agreements. |

- | | | |
|---|---|--|
| (c) Expenditure of Rs.4,639,631 had been incurred for the renovation activities of the second floor of the Institute before the year 2017. A new contract agreement had been entered into for the building renovation activities and a sum of Rs.46,348,295 had been spent again in the year 2017 for that purpose. Accordingly, the total sum of Rs.4,639,631 spent before the year 2017 had become a fruitless expenditure. | Due to renovations, repairs had to be done again. | The management should ensure to plan and carry out renovations of the buildings so as to assure their durability. Action should be taken against the officers who should be responsible for incurring uneconomic expenditure in this nature. |
|---|---|--|

3.4 Human Resource Management

| Audit Observation | Comments of the Management | Recommendation |
|--|--|--|
| (a) Even though the Department of Management Services had approved 454 staff for 33 posts of the Institute on 23 November 2017 and 15 May 2018, recruitments for 10 key posts of the Institute had not been made even by February 2019. Similarly, 9 and 28 medical officers on permanent and contract basis had been employed in the Institute. Accordingly, 34 posts of Medical Officers had fallen vacant and necessary steps had not been taken to fill those vacancies. | Action will be taken to make recruitments in future. | Action should be taken to make recruitments relevant to the key posts without delay. |
| (b) It was observed at the audit test check carried out on the National Transport Medical Institute that out of the Medical Officers who had been recruited on the basis of hourly wages, 11 officers had not reported to the service by 31 December 2018 and action had not been taken | Discussions are being conducted with the Ministry of Health. | Since the Medical Officers contributes towards the achievement of key performance of the Institute and existence of vacancies of those posts directly affects the performance, steps |

so as to prevent them from issuing medical certificates by informing the Commissioner of Motor Traffic on such medical officers who had not reported to the service.

should be taken giving priority to fill the above vacancies.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

| Audit Observation | Comments of the Management | Recommendation |
|---|------------------------------------|--|
| <p>Even though financial statements for the year under review should be furnished to the Audit within 60 days from the close of the year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, financial statements had been presented on 09 April 2019, after a delay of a month.</p> | <p>No comments have been made.</p> | <p>Action should be taken to present accounts within due period.</p> |

4.2 Annual Action Plan

| Audit Observation | Comments of the Management | Recommendation |
|---|--|--|
| <p>The Institute had not taken action to prepare Action Plan to suit to the objectives.</p> | <p>The Action Plan has been prepared to suit to the objectives such as obtaining buildings, medical equipment, launching training workshops in order to create a more contented staff.</p> | <p>Action Plan should be prepared in keeping with the functions to be discharged by the Institute.</p> |