

Vehicular Emission Test Trust Fund of the Department of Motor Traffic – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Vehicular Emission Test Trust Fund of the Department of Motor Traffic 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 net assets 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(3) 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. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 determines 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 Fund's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Fund 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 of the Fund.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

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 Fund'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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund'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 Fund 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 Fund and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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.

1.5.2 Deficiencies in the Presentation and Maintenance of Accounts

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) According to the Accounting Practice, a Bank Reconciliation Statement is usually not prepared for the balance of a savings account and the balance of relevant cash book. However, a Bank Reconciliation Statement had been prepared for the Savings Account maintained on behalf of the Fund.	Not replied.	Taking action in compliance with Generally Accepted Accounting Principles.
(b) According to the Bank Reconciliation Statement prepared as at 31 December of the year under review for Bank Current Account, it had been indicated that a sum of Rs.709,782 had been transferred to a Savings Account. However, according to the Pass Book of the Savings Account, such a transfer of money was not observed.	Not replied.	Keeping records so as to compare the values of financial statements with source documents.

- (c) In carrying forward the balance of other Revenue Account in the ledger from one page to another, it had been overstated by Rs.6,100. Not replied Balances of accounts should be copied accurately.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Interests of Rs.6.70 million received on Savings Account had been disclosed in the financial statements as interest on Treasury Bonds.	Not replied.	Disclosure of income sources accurately.

1.5.4 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per Corresponding Record	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
(a) According to the Income Statement, the balance of the Service Expenditure Account had been Rs.198,330. However, it had been indicated as Rs.207,701 in relevant notes, thus indicating a difference of Rs.9,371. However, reasons therefor were not explained.	198,330	207,701	9,371	Not replied	Maintenance of Accounts Books so as to reconcile the values of financial statements and values in relevant notes.
(b) A difference of Rs.709,782 was observed between the balance remained according to the Pass Book of a Savings Account as at 31	245,579,619	246,289,401	709,782	Not replied	Maintenance of Accounts Books so as to reconcile the values of financial statements and values in relevant

December 2018 and the balance compared with the Statement of Financial Position according to the cash book prepared for that Account as at that date.					source documents.
(c) A difference of Rs.95,225 was observed between the value indicated in the ledger relating to the expenditure on salaries of the year under review and the value indicated in the statement of financial performance submitted. Reasons for that difference were not explained.	3,411,314	3,316,089	95,225	Not replied	Maintenance of Accounts Books so as to reconcile the values indicated in financial statements and balances in relevant ledger accounts.
(d) According to the audit examination carried out relating to the transfer of money between the Bank Current Account and the Savings Account maintained on behalf of the transactions of the Fund, differences totalling Rs.16 million were observed in 33 instances. Reasons for those differences were not explained.	-	-	16,033,632		Transactions between two bank accounts should be properly recorded in books.

1.5.5 Going Concern of the Fund

Audit Observation	Comments of the Management	Recommendation
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<p>In terms of Public Finance Circular No.02/2018 dated 18 August 2018 of the Secretary to the Treasury, it was confirmed that it had been decided to close down the Vehicular Emission Test Trust Fund on the Cabinet Approval. However, action had not been taken according to the Circular even by 15 May 2019 to appoint a Liquidator and to settle liabilities from assets and to credit the remaining to the Consolidated Fund. The number of deposits of the Fund alone had been Rs.711 million and the Secretary to the Treasury was one of the two parties of this Fund established under a Deed of Trust. In terms of paragraph 11 (a) of the Deed of Trust by which the Fund was established, this Fund is abolished on the declaration of the Secretary to the Treasury. Accordingly, one party has already withdrawn from the relevant agreement in terms of the said circular issued by the Secretary to the Treasury. As such, the legality of going concern of the Fund was problematic.</p>	<p>Not replied.</p>	<p>Taking necessary action within the legal frame work concerned.</p>

1.5.6 Documentary Evidences not made available for Audit

Item	Audit Evidence not made Available	Comments of the Management	Recommendation
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<p>Even though an income of Rs.530,125 had been shown under sundry income in the Statement of Financial Performance, evidence for identifying a sum of Rs.453,725 out of the said amount had not been made available to Audit.</p>	<p>Evidence for unidentified income</p>	<p>Not replied.</p>	<p>Maintenance of adequate evidence for confirmation of values indicated in the financial statements and making them available for Audit.</p>

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Failure in taking action properly on 07 cheques valued at Rs.70,500 issued according to the Current Account No.119-2-001-3 0007394 but remained uncashed for more than six months from the date of issue.	Not replied.	Taking action according to Financial Regulations
Financial Regulation 396(d)			
(b) Public Finance Circular No.PF/423 of 22 December 2006	Failure in considering the ability of transfer of 03 Fixed Deposits valued at Rs.711 million of the Fund to the Consolidated Fund.	Not replied.	According to the Circular, action should be taken by considering the ability of crediting surplus moneys to the Consolidated Fund.
(i) Paragraph 03.2(b)	A monthly average balance of Rs.239.68 million in the Savings Account of the Fund was observed according to a sample test check carried out for 12 months of the year under review.	Not replied.	According to the Circular, if there is any surplus money, action should be taken by considering the ability of crediting the said money to the Consolidated Fund.

(ii) Paragraph 4.3	<p>The Performance Reports of the Fund for the relevant financial year should be prepared within 02 months after closure of the year of accounts and presented to the Auditor General with copies to the Director General of Public Finance. Nevertheless, such a Performance Report had not been prepared even by 17 May 2019.</p>	Not replied.	Taking measures to act as per the Circular.
	<p>Even though financial statements should be presented to the Auditor General for audit within 02 months after closure of the year of accounts, accounts had been submitted after elapse of 27 days.</p>	Not replied.	Taking measures to act as per the Circular.
(iii) Paragraph 4.2 (c)	<p>If a separate bank account and books are maintained for the Fund, those accounts should be reconciled daily and reports on its progress for each quarter should be presented to the Director General of Public Finance. However, no such reports whatsoever had been prepared up to now and forwarded to relevant parties.</p>	Not replied.	Taking measures to act as per the Circular.

2. Financial Review

2.1 Financial Results

The operations of the Fund had resulted in a surplus of Rs.305.89 million for the year under review as compared with the corresponding surplus of Rs.187.36 million for the preceding year, thus indicating an improvement of Rs.118.53 million in the financial result. The increase in the income of the year by Rs.96.18 million and decrease in expenditure of the year by Rs.22.35 million had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
According to the agreement of the Vehicular Emission Test Trust Fund, meetings of the Governing Board should be held once in 03 months. However, only 03 meetings of the Governing Board had been held in the year 2018.	Not replied.	Facilitating the activities of the Fund by taking action in compliance with existing laws and rules.

3.2 Performance

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Even though Emission Test Certificates had been issued for 4,875,767 motor vehicles during the year under review by 2 private institutions which carried out emission tests, road tests and spot tests had been carried out only for 7,203 out of the said motor vehicles by the Fund. It had been a value as low as 0.15 per cent of the emission certificates issued.	Not replied.	More attention should be paid to objectives of the Fund by selecting an adequate sample for tests and carrying out relevant tests.
(b) Payments had been made to external parties for emission tests for performing objectives of the Vehicular Emission Test Trust Fund. Matters disclosed in that connection were as follows.		

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| <p>(i) Even though the period of agreements of two emission tests had terminated in the year 2017, the reports thereon had not been submitted to the Fund even by 17 May 2019. As such, it was observed that a sum of Rs.21.65 million spent for these tests had become fruitless due to matters such as decrease in the timely importance of results of those tests, inability to obtain those data to stakeholders as well as failure to implement recommendations made on results of those tests. Moreover, completion of payment of all agreed money before presentation of the final report, had been contentious.</p> | <p>Not replied</p> | <p>Guidance for achieving objectives of the Fund through expenditure incurred.</p> |
| <p>(ii) Even though test reports on another 02 emission tests had been presented to the Fund during the year 2017, steps had not been taken even by 17 May 2019 to implement recommendations mentioned therein. The relevant recommendations had not been implemented by making the responsible parties aware as required. As such, objectives of the Fund such as improvement of air quality by reducing air pollution and prevention of diseases, had not been achieved. Until those recommendations are implemented, the sum of Rs.1 million spent therefor is observed as a fruitless expenditure.</p> | <p>Not replied.</p> | <p>Requirement of guidance for achieving objectives of the Fund through expenditure incurred.</p> |

4. Accountability and Good Governance

4.1 Internal Control

Audit Observation

Comments of the Management

Recommendation

A separate Internal Audit Unit had not been established for the Fund and an adequate audit had not been carried out by the Internal Audit Unit of the Department as well.

Not replied

Carrying out a proper internal audit.

4.2 Budgetary Control

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Even though a sum of Rs.461,000 had been allocated from the budget for payment of sundry debtors, the actual payment was Rs.132.01 million. As such, provisions for deficits made in relation to the budgeted value had been 28,636 per cent. As such, it was observed that the budget had not been made use of as an effective instrument of management control.	Not replied	Determining budgetary values in a realistic manner
(b) Even though a provision of Rs.653.4 million had been made from the annual budget for 04 Objects, no such expenditure whatsoever had been incurred during the year.	Not replied	Determining budgetary values in a realistic manner