

Head 307 - Department of Motor Traffic

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Motor Traffic for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, and cash flow statement for the year then ended, 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 . The Summary Report containing my comments and observations on the financial statements of the Department of Motor Traffic was issued to the Accounting Officer on 30 June 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department of Motor Traffic was issued to the Accounting Officer on 20 July 2021 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Motor Traffic as at 31 December 2020 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters stated in Paragraph 1.6 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 opinion.

1.3 Responsibilities of the Accounting Officer on Financial Statements

The Accounting Officer is responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department 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.

The Accounting Officer shall ensure that an effective internal control system is prepared and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Sub-section 6 (1)(d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented.

1.6 Comments on the Financial Statements

1.6.1 Statement of Financial Performance

(a) Receipts of Income

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Even though the computation of revenue in arrears on luxury motor vehicles tax relating to the period from the year 1995 to 2014 had been commenced in the year 2016, no action had been taken to prepare any reports on those arrears and furnished together with the financial statements. Therefore, it was not possible for the Audit to confirm the amount of arrears relating to that period. However, the arrears of revenue recovered for 13 years prior to the year 2009 was Rs. 34,898,108.	It is not possible to ascertain arrears of tax from the present computer system and therefore, action will be taken to develop the computer system.	Action should be taken to recover the revenue in arrears expeditiously.

(b) Recurrent and Capital Expenditure

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
When comparing the expenditure balances in the Statement of Financial Performance with the total expenditure incurred in cash and the expenditure incurred by other Ministries/ Department as per Form ACA2 (ii), there was a difference of Rs. 2,092,955,819.	This unreconciled difference had been caused by a mistake. The correct expenditure was stated in the preparation of the financial statements.	Book keeping activities should be carried out in a proper manner.

1.6.2 Statement of Financial Position

Audit Observation	Comment of the Accounting Officer	Recommendation
----- Seventeen vehicles and Property, Plant and Equipment totaling Rs.86,071,226 had not been capitalized as fixed assets.	----- Action will be taken to account for these vehicles as fixed assets in the future.	----- Action should be taken to properly account for the transactions.

1.6.3 Cash Flow Statement

Audit Observation	Comment of the Accounting Officer	Recommendation
----- When comparing the balances in the cash flow statement with the balances of expenditure incurred in cash in the Form ACA 2(ii), there was an unreconciled difference of Rs. 2,049,622,835.	----- Action will be taken to prepare schedules correctly in the future.	----- Balances in the schedules should be tallied with the balances shown in the financial statement.

1.6.4 Imprest Adjustment Account

Audit Observation	Comment of the Accounting Officer	Recommendation
----- When comparing the balances shown as District office receipts and payments in the Imprest Adjustments Account with the balances of the Cigaz programme, there were differences of Rs. 36,156,577 and Rs.12,379,811 respectively.	----- Action will be taken to avoid these types of errors in the preparation of accounts in the future.	----- Only the amounts applicable to the Imprest Adjustment Account should be adjusted.

1.6.5 Non-maintenance of Registers and Books

It was observed during the audit test checks that the Department had not maintained the following documents.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A register including the details on all the vehicles registered as per Section 6(a) of the Motor Traffic Act (Cap. 203) had not been maintained in the prescribed format.	Since the details are included in the computer system, a separate register is not maintained.	All books, registers and records should be maintained in accordance with the existing legal provisions.
(b) A register on cancelled vehicles had not been maintained as per Section 18(8)(a) of the Motor Traffic Act (Cap. 203)	Action will be taken to maintain the relevant register.	All books, registers and records should be maintained in accordance with the existing legal provisions.

1.6.6 Lack of Evidence for Audit

Audit Observation	Comment of the Accounting Officer	Recommendation
The Department had not replied to 05 audit queries issued in the year under review even by 30 June 2021 and the computable value relating to those queries was Rs. 416,313,438.	Action will be taken to avoid delays from this point onwards.	Replies to audit queries should be given without delay.

2. Financial Review

2.1 Revenue Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In terms of Paragraph 07 of Public Finance Regulation No. 128 (2) (d) and No. 01/2015 dated 20 July 2015, Quarterly Revenue Reports for the year 2020 should be submitted along with the financial statements for 04 revenue codes, but the relevant reports had not been prepared even by 25 February 2021. Likely, no half-yearly reports on outstanding revenue had been prepared under a single revenue code.	The quarterly revenue reports will be submitted properly. It was practically difficult to calculate the arrears as carbon tax is also levied by the Divisional Secretariats.	Reports should be submitted on due dates without delay.
(b) In terms of annual revenue estimate, there was a unreconciled difference of Rs. 1,012,000,000 between the revised estimate of 04 revenue codes and those revised revenue estimates as per the revenue statements.	As the estimates in the revenue statement were submitted in the year 2019, the revenue statement was prepared accordingly.	The balances to be included in the financial statements should be identified accurately.
(c) When comparing opening balance of the statement of outstanding revenue for the year under review on luxury vehicles with the closing balance of that statement for the preceding year, there observed a difference of Rs. 426,827,000.	This difference was due to an error in recording the outstanding revenue balance as at 31 December 2019.	Balances from the preceding year should be correctly carried forwarded to the year under review.
(d) No steps had been taken to systematically maintain records on outstanding revenue and prevent further accumulation of outstanding revenue, as required by Paragraph 04 of the Public Finance Circular No.01/2015 dated 20 July 2015. There was a tendency to annually increase the total revenue in arrears continuously and the outstanding revenue had considerably increased in the year 2020 by 318 per cent as compared with the year 2016.	As the existing computer system is not sufficient enough to collect outstanding revenue, a note was made to do necessary changes by developing the computer system.	Records should be maintained as indicated in the circulars and recovery of outstanding revenue should be expedite.

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| (e) | According to the statement of outstanding revenue, the outstanding revenue of Rs. 313,528,052 in 2020 had not been classified as the year under review, the preceding year, and the period before the preceding year. | The computer system is being updated to carry out proper classification. | Records should be properly maintained and recovered the outstanding revenue expeditiously. |
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2.2 Expenditure Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) Out of net provisions of 07 Items of Expenditure, 87 percent had been saved and those savings had ranged from 42 to 100 percent. However, Covid 19 pandemic had resulted in the savings of provisions.	The observation that 87 percent of net provisions of 07 Items of Expenditure had been saved is agreed upon.	Estimates should be prepared in a realistic manner.
(b) Out of the estimated value of 04 Items of Expenditure, a percentage of 31 percent to 145 percent had been transferred by F.R.66.	Since the provisions were not sufficient, provisions had to be transferred from other Items of Expenditure.	Estimates should be prepared in a realistic manner.

2.3 Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) No statement of liabilities and commitments had been prepared and furnished along with the financial statements in terms of Form – (iii).	It is informed that the statement will be properly furnished in the future.	All the formats stated by laws, rules and regulations should be furnished along with the financial statements.

(b) Although expenditure of Rs. 4,600,822 related to the year under review had been settled in the year 2021, those had not been recognized as liabilities in the preparation of financial statements.	Liabilities will be correctly recorded in the future.	All the expenditure related to the year under review should be properly recognized and brought to account.
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2.4 Assurance to be made by Accounting Officer

Even though the Accounting Officer is required to assure on the following matters in terms of provisions in Section 38 of National Audit Act No.19 of 2018, action had not been taken accordingly.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In terms of the provisions of section 38 of the National Audit Act No. 19 of 2018, the accounting officer should ensure that an effective internal control system is developed and maintained for the financial control of the department and the effectiveness of the system should be reviewed periodically and necessary changes should be made to ensure that the system is running effectively. Although the copies of that reviews should be made available to the Auditor General, but no statement had been made to the audit that such a review had taken place.	Not replied.	Provisions in Section 38 of the National Audit Act No. 19 of 2018 should be complied with.
(b) Even though the Accounting Officer shall ensure that all audit queries be answered within the specified time as required by the Auditor-General, no answers had been given for audit queries in terms of Paragraph 3.4 of the report.	Not replied.	Provisions in Section 38 of the National Audit Act No. 19 of 2018 should be complied with.

2.5 Non-compliance with laws, rules, regulations

 Instances of non-compliance with laws, rules, regulations are analyzed below.

Reference to laws, rules and regulations	Non-compliance	Comment of the Accounting Officer	Recommendation
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(a) Section 42 of National Audit Act No,19 of 2018	There were instances where, information on the vehicle registration and the information requested for the audit requirements had not been furnished.	Action will be taken to furnish the files heretofore	Provisions of the Act should be followed.
(b) Motor Traffic Act (Cap.203)			
Sub-section (i) (3) 18	Due to the failure of the Provincial Authorities to inform the Department of Motor Traffic when applying for renewal of Revenue Licenses that had elapsed more than two years, the Commissioner General of Motor Traffic had lost the opportunity to cancel the registration of such vehicles.	Action will be taken to inform the provincial authorities in this regard.	Provisions of the Act should be followed.
(ii) Sub-section 18(7)	Although the number plates of the vehicles the registration of which has been canceled should be returned within 07 days, the number plates of 872 vehicles which were canceled during the period from 2015 to 2019 had not been handed over to the Department.	A committee has been appointed to prepare a suitable procedure for this purpose and action will be taken accordingly after receiving the report of that committee.	Provisions of the Act should be followed.

(iii) Sub-section 18(13)	Cancellation of vehicles and their disposal had been done informally. This was due to the fact that the Minister had not prepared any orders regarding the reports to be maintained on the disposal of canceled vehicles.	A committee has been appointed to prepare a suitable procedure for this purpose and action will be taken accordingly after receiving the report of that committee.	Provisions of the Act should be followed.
(iv) Sub-section 25(1)	Although it is not possible to own a motor vehicle without a revenue license, it was controversial not to take revenue licenses for 03 vehicles for 15 years from the date of the first registration .	The Provincial Authorities were informed to inquire from this department before issuing licenses which are expired more than a year.	Provisions of the Act should be followed.
(v) Sub-section 30(1)(f) (III)	(i) Although the revenue license should be obtained within 03 days from the first registration date of a vehicle, the revenue license had been obtained at once for a long period of 23 to 27 years from the first registration date for 05 vehicles.	The Provincial Authorities were informed to inquire from this department before issuing licenses which are expired more than a year.	Provisions of the Act should be followed.
	Although vehicles older than 03 years from the year of manufacture could not be imported to Sri Lanka, 02 vehicles older than 07 and 08 years from the year of manufacture had been registered.	As the evidence was presented that the vehicles were released after a customs inquiry, the relevant registration was done.	Provisions of the Act should be followed.

2.6 Issuance and Settlement of Advance

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The failure to settle the loan balances of Rs. 536,749 that had lapsed for more than 05 years from the demise of the borrower was contradictory to Section 04 of Chapter XXIV of the Establishments Code.	Necessary particulars are being continuously searching for.	Those balances should be settled without delay.
(b) Although the loan balances of the transferred officers should be settled within three months as per the F.R.485(4) and the Public Enterprises Circulars No. 89 dated 22 October 1993, there were 04 outstanding loan balances of Rs. 226,230 which had not been settled for a period of 05 years as at 31 December 2020.	Particulars on these loans are being continuously searching for.	Those balances should be settled without delay.
(c) The loan balance of Rs. 302,722 due from 07 officers whose pensions had been suspended remained for more than 05 years.	Some information was provided by the Department of Pensions.	Necessary lawsuits should be initiated.
(d) Loan balances of Rs.1,330,463 due from 19 interdicted officers had not been recovered from those officers or the guarantors up to 31 December 2020 despite lapse of 02 years from the recovery of the last installment. There were 17 loan balances totaled Rs. 1,170,753 elapsed for more than 05 years in the above balances.	One loan balance is being recovered. Particulars on the other balances are on searching for.	Legal action should be taken in this regard.
(e) Loan balances of Rs. 234,042 due from 07 officers who had vacated the service had not been recovered from the relevant officers or the guarantors up to 31 December 2020 despite lapse of 05 years from the recovery of the last installment	Arrangements are being made to take legal action against one officer and search for information on the other officers.	Legal action should be taken in this regard.

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| (f) | There was a difference of Rs. 2,359,113 according to the total of the Individual Balance Classification Summary as at 31 December 2020 and the balance as per the department books. The accounting records stated the same to be an accounting error continued to exist over a number of years. | It is kindly informed that action will be taken to examine the account and furnish the relevant details. | Transactions should be brought to account by reconciling them with relevant documents and source documents. |
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2.7 Deposit Balance

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) Action in terms of Financial Regulation 571 had not been taken on 12 deposit balances of Rs. 24,179,394 that had lapsed 04 years as at 31 December 2020 relating to one deposit account.	This balances will be settled as per the reports received from the consultancy firm.	Action should be taken in accordance with laws, rules and regulations.
(b) In terms of F.R.571 (1), a list of all the lapsed deposits had not been prepared at the end of each half year.	Relevant lists will be prepared for each half year to come.	Action should be taken in accordance with Financial Regulations.
(c) According to list of individual balances of 03 deposit accounts, there was no analysis on deposit balances of Rs. 5,708,778 existed in the District Secretariats as at 31 December 2020 and therefore, it was not possible to confirm as to which District Secretariat the balances belonged to and how old the balances were.	Although the district secretariats were informed to submit reports on deposit transaction monthly, those reports have not been received as yet.	Reports should be prepared with analysis as per the requirements.
(d) According to Paragraph 04 (c) of State Fiscal Policy Circular No.01/2015 dated 20 July 2015, revenue included in the deposit accounts should be settled within the first week of the succeeding month. Nevertheless, revenue collected on behalf of the provincial councils had not been remitted accordingly. Further, an unsettled opening balance of Rs. 550,687 remained throughout the year, affecting the coming year as well.	Action will be taken to credit the existing balance of Rs. 295,260 to the Revenue.	Action should be taken in accordance with laws, rules and regulations.

2.8 Statement of Non-financial Assessment

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Although other machinery and equipment had been classified under 05 Sub-code numbers in the Statement of Non-financial Assets in Form ACA-06, equipment Rs. 1,880,273 purchased during the year had not been classified under those code numbers.	It is kindly informed that action will be taken to correct this error in the future.	Action should be taken to properly identify and record the transactions.

2.9 Operating Bank Accounts

Deficiencies observed during the audit test check on operating bank accounts are given below.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) Action had not been taken to prepare the bank statements of a bank account after settling unidentified payments of Rs. 970,612 and receipts of Rs. 6,994,558 existed in the bank reconciliation statement prepared as of 31.December 2020.	The bank has been informed to submit correct information in this regard along with the bank statement.	Transactions should be properly identified and brought to account.
(b) The cheques worth Rs. 2,238,324 that had lapsed 06 months as of 31 December 2020 from their issuance had not been credited to the Revenue in terms of F.R.396 (d) and it included the checks worth Rs. 490,693 that had lapsed for more than one year.	Relevant parties were informed. Strict care will be exercised in this connection in the future.	Action should be taken in accordance with the Financial Regulations.

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| (c) | Information on a bank current account to which luxury tax revenue of Rs. 306,124,336 had been credited during the year under review was not disclosed in the financial statements as required by Treasury Operations Circular No.5/2007 dated 05 September 2007. | All information on the bank accounts will be disclosed in the future. | Action should be taken in accordance with the circular. |
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3. Operating Review

3.1 Transactions in the form of Financial Irregularities

	Audit Observation -----	Comment of the Accounting Officer -----	Recommendati on -----
(a)	As the data of 33 vehicles which were illegally imported or illegally assembled in the country without paying customs duties had been entered into the computer system of the Department and released for use in the country as legal vehicles, the government lost approximately Rs. 558,640,627 in excise duty, luxury tax and other government taxes only for 21 of those vehicles. Likely, the Department had not taken steps to maintain the original files regarding these vehicles. Details are as follows.	Internal circulars had been issued to prevent these irregularities.	Necessary laws should be amended ensuring not to misuse the public funds.
(i)	A number that had been missed from the then-registered serial number under category 302, which is not currently in use, had been used for the registration of a Mercedes-Benz car. As such an old number cannot be registered as a new number at present, the data of a Toyota Carina car registered in the year 2000 had been computerized as the data of that Benz car. Revenue licenses had been obtained for this vehicle for the last 16 years at once and the loss incurred to the Government due to non-payment of luxury taxes was Rs. 307,500.	An inquiry in this connection is in progress by the Criminal Investigation Department.	Legal actions should be taken by conducting a proper inquiry.

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| (ii) | Any details on the first registration and the Customs Entries of 02 motor vehicles in the No.302 category were not found in the computer system. | An investigation in this connection is in progress by the Criminal Investigation Department. | Legal actions should be taken by conducting a proper inquiry. |
| (iii) | The Department had taken steps to register 03 luxury motor cars of TOYOTA LEXUS, MITSUBISHI MONTERO PEJERO and TOYOTA LAND CRUISER PRADO using a Customs Entry which was used to import 02 heavy vehicles and 02 heavy lifting equipment to Sri Lanka. As a result, the import duty and luxury tax revenue lost to the Government was approximately Rs. 141,174,339. Although these vehicles were recorded in the computer system as vehicles auctioned by the Customs, none of them had been subjected to a customs auction. | A departmental inquiry had been initiated. Internal circulars have been issued prohibiting the registration of any vehicle regarding which the Sri Lanka Customs does not provide data through the computer network from July 2020. If the registration of these vehicles has to be canceled based on customs inspections, action will be taken accordingly. | Legal actions should be taken by conducting a proper inquiry. |
| (iv) | A Mitsubishi Jeep without a customs link had been registered on 22 November 2002. The numbers before and after that registration number were of two three wheelers registered on 22nd and 25th November 2002 respectively and the relevant Customs Links were available in the computer programme of the Department. Further, the revenue license for this vehicle had been obtained in the year 2018 after paying the revenue license fee of 17 years since 2002 at once. | An investigation is in progress. If there is any malpractice on the part of the officers, it will be referred to the CID or the relevant agencies for further action. Customs and DMT computer systems have been integrated to prevent such problems from recurring. Relevant divisions have been instructed not to register any vehicle that does not match the customs data without consulting the customs. | Legal actions should be taken by conducting a proper inquiry. |

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| (v) | As 03 vehicles had been registered in irregular manner, approximately Rs. 114,597,000 loss had been incurred to the government in excise duty and luxury tax. The absence of any customs data related to those vehicles in the computer system, the fact that there is no importation record of the chassis number in the customs data as stated by the Sri Lanka Customs, although the first registration was in the year 2002, the fact that the revenue license had been obtained in 2018 for all the years since that date onwards remained unrealistic. | Further details are being searched for in this regard and if any irregularities are found, action will be taken to conduct a departmental investigation and take further action accordingly. | Legal actions should be taken by conducting a proper inquiry. |
| (vi) | Five new vehicles had been registered by entering incorrect data into the computer system using missed numbers pertaining to the period from 1992 to 2015. The Government had lost about Rs. 4,249,600 in excise tax revenue on one of these vehicles. The new registration fee of Rs. 99,200 for 05 vehicles had also not been charged and the luxury tax payable for a single vehicle was Rs. 295,000. | - Do - | Legal actions should be taken by conducting a proper inquiry. |
| (vii) | The Government had lost approximately Rs.297,057,788 in excise duty, luxury tax and other Government fees and revenue only for 09 vehicles out of 17 vehicles registered informally. Apart from that, the matters such as leaving of certain numbers without issuing the registration numbers in sequence, subsequently registering the vehicles using those unissued numbers, incomplete sector details of the computer system, lack of data on the Customs Entries in the computer system, computerization of the data of 14 vehicles after 8 to 25 years from their first registration between 1992 and 1997, obtaining the first revenue license for 10 vehicles on a nearest day after that computerization, and obtaining revenue licenses at once for a long period of 23 to 27 years for 05 vehicles including 04 of the above vehicles were unrealistic. | - Do - | Legal actions should be taken by conducting a proper inquiry |

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| (viii) | First registration of a vehicle in 302 category, for which revenue license had been obtained at once in 2018 for the past 18 years, had been informally entered in the computer system as the year 2006 and as a result, the Government incurred a loss of Rs. 652,500 in luxury taxes. | An investigation in this connection is in progress by the Criminal Investigation Department.
It is informed that disciplinary action will be taken against the responsible officials according to the results of the investigation. | Legal actions should be taken by conducting a proper inquiry |
| (b) | The registration of a Government-owned cab had been later transferred to an individual. The customs duty of Rs. 3,175,774 exempted in 2013 on the vehicle imported on behalf of the Government had not been recovered. Similarly, although the Licensing Authority of this vehicle was in the North Western Province since 2013, it was also problematic that the Revenue Licensing Authority in the Western Province had levied revenue license fees for the period from 2014 up 2018 at once in 2019. | It is informed that there were no legal restrictions at the time of the transfer and there was no reason to conclude that the vehicle was not in proper running condition. | Legal action should be taken to recover the exempted customs duty of Rs. 3,175,774 from the person after conducting a proper investigation. |
| (c) | As the vehicles imported for special purposes had been registered under the registration numbers for dual purpose vehicles without including any special conditions in the registration certificate, the Government incurred a loss of Rs. 27,472,988 in customs duty on 09 vehicles alone in the years 2018 and 2019 | Motor vehicles are not registered based on the tax levied and only cars networked by the Sri Lanka Customs are registered. The registrations of these vehicle are classified according to the Motor Vehicles Act. Instructions have been given to look into and report whether there are any malpractices. | Legal actions should be taken by conducting a proper inquiry |

3.2 Uneconomic Transactions

 The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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<p>(a) As a result of printing provincial letters on vehicle number plates, new number plates had to be purchased when the ownership of a vehicle is transferred between provinces. It was not observed any utility available to any party other than the profit made by the supplier by printing these letters. Accordingly, the productivity of Rs. 778,448,278 paid to the supplier for number plates of 376,233 vehicles transferred between the provinces during the last 03 years alone was questionable during the audit. Similarly, about Rs. 260 million in foreign exchange had been annually spent for the plates imported for this purpose.</p>	<p>The audit observations are agreed. We have also observed this fact and taken the following steps.</p> <p>A proposal has been submitted to the Minister of State for Transport for the Cabinet Memorandum on 10.09.2020 under the theme "Designing Vehicle Number Plates Issuing Process in a Convenient Way for Clients". The number plate printing company has been appointed for a period of 5 years from 01.05.2019. The Department has agreed to provide the capacity development and facilities required for the printing of vehicle number plates by the Government Factory in accordance with the latest technology thereafter.</p>	<p>Management decisions should be taken to ensure the safety of the public funds.</p>
<p>(b) Since the radio frequency identification sticker, which had been introduced to recognize the identity of the vehicle, was not in use practically, no benefit was observed to any party except the profit gained by the private company printing them. Although there is a utility, as it provides only limited data such as vehicle number, province, chassis number, the amount of Rs. 153,059,534 paid to the private company for 302,192 stickers issued from December 2019 to August 2020 was observed as a fruitless expenditure.</p>	<p>Since this sticker should be provided to all vehicles in Sri Lanka in order to make proper use of it, a Cabinet Paper has been forwarded seeking approval for that purpose. Accordingly, the Cabinet has appointed a Committee consisting of Secretaries to the Ministries and a Project Committee to assist them. These committees will propose appropriate steps to make the</p>	<p>Public funds should be used in such a way that derives benefits in commensurate with the amount spent.</p>

optimum utilization of this technology.

It is true that the RFID tag contains a limited amount of data. But the RFID tag is not the only device designed to share information. For example, in order for the Sri Lanka Police to obtain information using this tag, they must meet the following requirements.

- RFID Reader
- An information system that can identify vehicles through the above device and maintain contact with our information system.
- Establishment of an electronic information exchange service in our system to provide necessary information to the police.

(c) Number plate printing was done on different scales and their purchase cost also remained different. Further, all the signs on the surface of the number plates were equal on all number plates. Although the sizes and thickness of those signs remained different, they were immaterial factors in the cost assessment. Accordingly, the purchase cost per square millimeter of a number plate of any size should be the same. But the cost per square millimeter of the most used number plates in 300 x 80 mm and 240 x 430 mm was high and the price per square millimeter of the number plates in 520 x 110 mm was relatively low. The the supplier has determined the selling price of the 520 mm x110 plate with a certain marginal profit. Accordingly, when the payments made for the remaining number plates

Agreed.

All the matters such as the method of service provided by the service provider selected through a standard Government procurement process, the country from which the raw materials for the number plates are purchased and compliance with the specifications required by the procurement document are all part of the relevant procurement and not at the discretion of this department. Therefore, it is believed that the Technical Evaluation Committee might have taken into account the purchase cost per square millimeter of a number plate

Public funds should be used in such a way that derives benefits in commensurate with the amount spent.

were calculated on the basis of the above purchase price, it was observed that an additional amount of Rs. 719,182,714 had been paid for the number plates issued during the period from May 2015 to June 2019

(d) Although the contract for issuing a driving license at Rs. 1,340 had expired on 26 March 2016, the responsible parties had not taken steps to perform the following functions.

- Taking over the printing of this license by the Department of Motor Traffic and taking necessary arrangements to carry out the task.
- If it is not possible to take over and maintain that task as mentioned above, taking action to select a new supplier through a formal procurement process as the Department was aware of the expiry of the agreement in the year 2016 before 7 years.
- If both of the above matters are not possible, negotiate with the relevant supplier and get the price reduced.

Instead of carrying out the above, the contract had been awarded to the same supplier until 30 June 2020, extending the contract period in 05 instances at the prevailing prices.

That is, no negotiations on the price revision had been done on at least one of 05 occasions when the dates were extended for a period of 51 months. However, the supplier had agreed to reduce the price of a driving licence up to Rs.1000 by Rs.340 for a period of 06 months since 01 June 2020. Whilst inflation continues in the island and the Sri Lankan rupee continues to depreciate, the agreement to reduce the

as mentioned in the query when evaluating the bids on number plates.

Reasons for printing these driving licenses up to 31.12.2020 to be done by the same contracted service provider have been reported at length as replies to similar audit queries and to the Public Accounts Committee on previous occasions. Further, as per the directives received from the Committee on Public Accounts in this regard, all relevant assets were taken over by the Department in July 2020 and only a service and maintenance agreement is maintained from that date. It is informed that this work is being carried out by the Sri Lanka Army on behalf of the Department of Motor Traffic from 01.01.2021. Under the original agreement, it has been agreed to calculate the actual effect in every instance where the rupee is depreciated by more than 10% against the dollar and make payments accordingly. The service provider has requested this price adjustment each time the contract is extended but has been able to reach an agreement not to do so. Each of these extensions has been approved by the Cabinet, and

Public funds should be used in such a way that derives benefits in commensurate with the amount spent.

unit price by Rs. 340, or 25 per cent, shows that the purchase cost of Rs. 1,340 per driver's license charged from the year 2009 contained a high profit margin. Therefore, if the formal procurement process was implemented within the pre-agreement period or if price reduction was negotiated with the supplier, the audit could not rule out the possibility that the lowest bids were likely to be offered either from that supplier or from a new supplier. However, due to the failure of the Ministry / Departmental Management to make such decisions efficiently for the better use of public funds, the amount of public money that flowed non-frugally to a private company for 3,075,625 driving licenses printed during the 51 months from March 2016 to June 2020 was observed as Rs. 1,045,712,500.

in no case has the issue of price reduction been raised as an observation of the Ministry of Finance or any other institution or Cabinet.

Moreover, the reasons for not taking steps to reduce prices are mentioned above. Accordingly, as calculated in the query, it is observed impractical and unreasonable the indication that there was a huge profit in the purchase price of Rs. 1,340 per card paid from the year 2009 after the declaration of the amount of Rs.1,000 which was determined in July 2020. Very critical discussions were held by a committee authorized to reduce the price by Rs. 340 and the initial purchase cost of Rs. 1,340 is a price decided at a Cabinet level procurement under open and competitive bids.

3.3 Operating Inefficiencies

The following observations are made.

	Audit Observation -----	Comment of the Accounting Officer -----	Recommendat ion -----
(a)	There were no written approvals for blacklisting of 115 vehicles and chassis numbers during a year and the withdrawals of blacklisting of 81 vehicles and chassis number in 06 six months. There were also instances where blacklisting of vehicles had been withdrawn prior to the receipt of approval.\	Action will be taken to give replies in the future.	Measures to be taken to ensure a better internal control should be determined.

- (b) Even though the Technical Division of the Department had given recommendations for the cancellation of the registration of 600 vehicles during the period from December 2015 to May 2019, the Vehicle Transfer Divisions had not taken action to cancel them. However, during that period, the IT Division and the Vehicle Transfer Division had taken action to cancel the registration of 223 vehicles not recommended by the Technical Division. Further, the cancellation of the registration of the vehicles was recorded in the computer system, but the date had not been mentioned.
- The cancellation of the possession is carried out by the Information Technology Divisions only at the request of the relevant divisions. Although the extract does not indicate the date of cancellation, the relevant information is recorded in the system and immediate action will be taken to correct it as it is a software error in the system.
- Do -
- (c) Although vehicle registration numbers should be issued in a consecutive order, certain numbers were left blank. It was questionable to leave any number blank other than the numbers that make its sum 13. Since the vehicles had been registered fraudulently using those blank numbers, the possibility of disclosing information about all blank numbers in newspaper advertisements and discouraging such malpractices had not been considered.
- An investigation in this regard is being conducted by the CID. It is informed that if information about such vehicles is provided as you have mentioned, it will be possible to look into them. The blank numbers in the database are being identified and after that the relevant numbers will be published in a newspaper advertisement as soon as they are frozen permanently.
- Do -
- (d) In 2016, a committee had decided that the documents such as the letter stating that customs duty has been levied, foreign registration certificate and its English translation, pre-export certificate should be submitted when the motor vehicles released by the Sri Lanka Customs on charging customs duty as the fines are registered as ordinary vehicles. In the absence of such documents, it was decided to assign a CMT chassis number with the approval of the Technical Division of the
- Registration of the new vehicle by giving a CMT chassis number is done with the prior approval of the Commissioner General by examining the data of the registered vehicle with the details of the new vehicle and the customs link data in order to register the vehicle legally after verifying the
- Do -

Department. That is, three letters in CMT and a serial number next to the existing chassis number are printed and the Government emblems are printed on both sides.

The following matters were observed.

(i) Although it had been decided to issue CMT chassis numbers only in the absence of the above documents, CMT chassis numbers had been issued on 80 occasions from 2016 to 2019 based on various reasons. Therefore, it was observed that there is a possibility to register the vehicles fraudulently under CMT numbers.

(ii) Although details of 21 CMT chassis numbers to be printed were communicated to the Government Factory during the period from 2015 to 2019, vehicles with such chassis numbers had not been registered until January 2021. Further, 06 vehicles for which the Government Factory had been informed to print CMT chassis numbers had been registered as normal vehicles.

(iii) Although the existing chassis number should have been canceled after the new chassis number is issued, there were 03 instances where vehicles had been registered for both the old and new chassis numbers, and 02 motorcycles had been registered under the same chassis number.

(iv) After considering the Government Analyst's observations regarding a confiscated Mitsubishi Pajero, the Department had informed the relevant High Court that the relevant vehicle was suitable for sale as spare parts. However, the vehicle had been registered in 2016 by giving a CMT chassis number and a registration number in response to a request made by the buyer of the vehicle

legitimacy of the new vehicle to prevent any injustice to the importer. In order to prevent such issues, actions will be taken, in negotiating with the Sri Lanka Customs, to

work out a specific methodology to be followed on the vehicles being investigated by the Customs.

to the Commissioner of Motor Vehicles to register the vehicle as it was an error occurred on the part of the High Court. But if there was such an error, there was no evidence that the relevant error was corrected.

(v) During the registration of CMT chassis numbers issued by the Department during the period from 2015 to 2019, thirty cases were observed where the registration certificate of the motor vehicles released by the Customs after levying customs duty had been marked as 'Recondition' instead of being marked as 'Brought From Auction'.

(vi) There was observed 08 instances where new customs record numbers had been created and computerized in the absence of customs records for CMT chassis numbers. There were no approved legal provisions for this purpose.

3.4 Failure to Reply to the Audit Queries

 The following audit queries issued to the Department had not been replied even by 30 June 2021.

Description of the Audit Query	Comment of the Accounting Officer	Recommendation
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(a) Issuance of CMT chassis numbers for vehicles	Action will	Replies to audit
(b) Registration of new vehicles under the registered numbers of the old vehicles.	betaken to prevent such practices henceforth,	queries will be given without delay.
(c) Subsequent registration of new vehicles under the old blanked numbers.		
(d) Contribution made by the Commissioner of Information and Communication Technology for the functions of the Department of Motor Traffic		
(e) Audit of revenue accounts.		

4. Achievement of Sustainable Development Goals

Audit Observations

Comment of the Accounting Officer

Recommendation

Resources of the entity should be effectively managed in order to achieve the, Goals 3.6, 3.9, 11.2 and 11.6 of the Sustainable Development Act No. 19 of 2017. Although the Department of Motor Traffic had identified those goals, no programmes had been formulated to achieve them.

Action will be taken to formulate programmes.

Provisions in the Act should be followed.

5. Human Resource Management

The following observations are made.

Audit Observation

Comment of the Accounting Officer

Recommendation

(a) Action had not been taken to fill 133 vacancies by the end of the year under review.

The number of vacancies at present is 62 and action is being taken to fill the vacancies.

Necessary vacancies should be filled in accordance with laws, rules and regulations.

(b) Even though 04 years have elapsed by the year 2020 since recruiting a first class officer in the Sri Lanka Administrative Service by submitting staff proposals and creating a new post under the Appendix of the Financial Regulations giving reasons therefor as the expansion of the existing functions of the Department, it was not observed that the work expected to be done by the officer as per the staff proposals submitted had not been carried out satisfactorily. Further, none of his qualifications and professional skills in the field of Information and Communication Technology could be confirmed in the audit as Information and Communication Technology Commissioner.

It is kindly informed that action will be taken to recruit a qualified officer for the post in order to properly carry out the duties to be performed by the Commissioner of Information Technology.

Staff recruitment should be carried out in a manner ensuring transparency.