

Rewards and Incentive Fund of the Department of Motor Traffic - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rewards and Incentive Fund of the Department of Motor Traffic for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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(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 and Finance Act, No.38 of 1971. My comments and observations which I consider should be presented in 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 2021, and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

My opinion is qualified based 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 this 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 the 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, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend 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 (1)16of 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 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 and 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 audit 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 audit 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 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
<p>If the conditions mentioned in paragraph 22 of Sri Lanka Public Sector Accounting Standard 8, are not met, no provision should be recognized. However, a sum of Rs.200,000 for training and educational programmes, sports, recreations, welfare and</p>	<p>It is agreed with the observation on allocating administrative expenditure. Relevant programmes on trainings, appraisal, welfare/recreation activities had not been conducted by using allocations made therefor due to the Covid pandemic prevailed</p>	<p>Taking action in accordance with Sri Lanka Public Sector Accounting Standards.</p>
<p>commendable activities of the staff and Rs.256,784 for administrative expenses had been recognized as expenditure and indicated under current liabilities of the statement of financial position.</p>	<p>during the period of 2020/2021 and attention of the Governing Board has been drawn towards the conduct of those programmes in future by using the said allocation.</p> <p>It is pointed out that as expenses necessary for those programmes could be incurred from the profit of the relevant year, these allocations have been made.</p> <p>It is further informed that in case of incurring of the said expenditure, it will be done with the approval of the Governing Board.</p>	

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
According to calculations, a difference of Rs.126,798 was observed between the expenditure relating to the year after adjusting the relevant accrued expenditure to operating expenditure for the year under review and the operating expenditure indicated in the statement of financial performance.	Accounting the transfer of incentive amounting to Rs.126,034.00 remained without disbursing in the first quarter of the year 2021, to the Accumulated Fund and overstating an amount repayable by an officer in the Incentive Account by Rs. 76.00, are pointed out as the reasons for the said difference.	Recording transactions accurately in the Ledger and the financial statements.

1.5.3 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Management	Recommendation
According to the Treasury Circular No. PED/3/2015 of 17 June 2015, institutions to which incentive for Governing Boards of State Owned Enterprises could be paid, had been separately recognized. However, this Fund had not been recognized as a fund to which allowances for the Governing Board could be paid. However, the Attendance Register of the Governing Board had not been made available to Audit to ensure that the sum of Rs.114,000 paid as allowances for the Governing Board in the year under review without the legal approval.	It is agreed with the report of the Auditor General. Action will be taken to maintain the Attendance Register for the Governing Board.	Only payments with legal approval should be made.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulation 877 (2) (c) included by paragraph 15.1 of Public Finance Circular No.01/2020 of 28 August 2020			

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| (i) Sub Paragraph 01 of Guidelines 04 | All receipts and payments of the Fund should be recorded in appropriate subsidiary Ledger Books and Ledger Accounts based on source documents. However, Ledger Accounts and Journal Entries had not been properly prepared relating to the Fund in the year under review. | According to sub-paragraph 01 of Guidelines 02 of Financial Regulation 877(2)(c) under paragraph 15.1 of Part I of Public Finance Circular No.01/2020 and Financial Regulation 445, it is informed that the Cash Book, General Ledger, Journal Entries, Investment Register, Register on Receipts, and Register on Payments are maintained as subsidiary Ledgers according to the nature of transactions. | Taking measures in terms of circulars. |
| (ii) Sub-paragraph 03 of Guidelines 04 | Reports such as the report on achievement of budget targets, report on the quarterly progress of the Action Plan, should be presented to the Auditor General before 15 days after closure of the quarter with copies to the Department of Public Finance and the Department of National Budget. However, no reports whatsoever had been made available to Audit during the year under review. | Even though quarterly reports relating to first three quarters of the year 2021 could not be presented on due date due to the Covid pandemic, it is informed that the quarterly report of the fourth quarter has been presented on due date. | -do- |
| (iii) F.R. 877 (1) (d) | No expenditure whatsoever could be incurred under the Fund without a budget approved for a certain year. However, audit fees for the year under review had not been estimated even by the budget -2022. | It is informed that making provision for administrative expenditure is adequate for paying audit fees relating to the year 2022. Audit fees of 3 years had been paid at once in the year 2021 at the request made for the payment of audit fees of 3 years. | -do- |

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 2,946,579 as compared with the corresponding surplus of Rs. 5,089,187 for the preceding year, thus observing a deterioration of Rs. 2,142,608 in the financial result. The decrease in the annual income by Rs.12,254,755 and increase in the administrative expenditure and other allocations by Rs.695,750 rather than the decrease in the operating expenditure by Rs.10,261,972, had mainly attributed to the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Even though a sum of Rs.11,943,493 had been paid as incentive in the third quarter of the year under review, no specific approval therefor had been made available to Audit.	It is informed that approval has been obtained for making payments relating to all first, second, third and fourth quarters of the year 2021. The relevant quarter and the amount approved for payment in the report on the meeting of the third quarter of the year 2021 had been recorded as fourth quarter and Rs.8,149,600 respectively by error and it is kindly informed that the quarter and the sum recorded therein should be corrected as third quarter and Rs.11,943,493 respectively.	Decisions of the Governing Board should be implemented with proper approval.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Four activities eligible for rewards and incentives had been pointed out under Directive, No. 03(1) of the Directives (Rewards and Incentives Fund) for motor vehicles, No. 04 of 2011 and it was observed in Audit that the Fund had not made payments for 03 activities eligible for rewards since the inception of the Fund. Accordingly, it was observed that achievement of expected objectives of the Fund had been in an unsatisfactory level.	A special evaluation committee consisting Commissioners, Assistant Commissioner (Technical) and Legal Officer of the Department of Motor Traffic was appointed for taking action relating to (a), (b) and (c) and it	More attention should be paid on main objectives of the Fund.

- is informed that action will be taken to make above payments on recommendations of the said committee.
- (a) Making payments to the informants providing information on the parties involved in making, manufacturing, assembling, designing, adapting, altering, or modifying motor vehicles without approval of the Commissioner General of Motor Traffic.
 - (b) Rewarding the persons providing information for the identification of certain illegal acts, or involved in disclosing such illegal acts.
 - (c) Making payments not exceeding Rs.50,000 per annum on the commendable or appreciable activities of the staff of the Department.

4. **Accountability and Good Governance**

4.1 **Budgetary Control**

Audit Observation	Comments of the Management	Recommendation
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<p>A variance ranging between 19 per cent and 100 per cent was observed between budgeted and actual values relating to 12 Items of Accounts in the year under review. As such, it was observed that the budget had not been made use of as an effective instrument of financial control.</p>	<p>The policy decision of the Government on restriction of vehicle imports and the Covid pandemic resulted in the decrease in revenue and it is informed that the decrease in interest rates by the Government in the year 2020 resulted in the decrease in interest income.</p> <p>Failure in reporting on training, sports activities and commendable or special appreciations of the staff to the committee due to inability of gathering the staff as a result of the Covid pandemic prevailed in the country had attributed to the variance of allocation for sports and training. It is kindly informed that holding only the minimum number of meetings due within the year, decrease in the members of the Governing Board and minimum incurring of entertainment expenditure for the Governing Board had attributed to the variance in entertainment expenditure of the Governing Board.</p>	<p>Budgetary figures should be determined realistically.</p>