

Vehicular Emission Test Trust Fund of the Department of Motor Traffic - 2021

1. Financial Statements

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 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 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 2021, and its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified 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 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, 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 Fund's ability to continue as a going concern, 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 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 Auditor's Responsibilities 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on 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 management's use of the going concern basis of accounting and based on the audit evidences 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 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 the powers, functions and duties; and whether the resources of the Fund has been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) 04 officers worked under the Department of Motor Traffic were attached to the Vehicular Emission Test Trust Fund and the said department had paid Rs.1,699,350 as salary in the year under review. The surplus of the fund for the year under review was overestimated by Rs. 1,699,350 due to the fact that the salaries paid to those officers were not identified and accounted for as expenses of the Fund.	The officers working under the Motor Traffic Department are attached to the Vehicular Emission Test Trust Fund and the salaries of those officers are paid by the department itself. Action will be taken to remit the salaries of the officers assigned by the department from the year 2022 to the department.	All expenses related to the year should be identified properly and included them in the financial statements.
(b) No measures were taken to identify the expenses related to the year under review for the general expenses like water, electricity and assessments etc. required for running the Fund and adjust those expenses in the accounts.	The related expenses have not been accounted for, and these expenses will be accounted for, as pointed out by the audit, according to a certain method.	All expenses related to the year should be identified properly and included the financial statements.

1.5.2 Going Concern of the Fund

Audit Observation	Comments of the Management	Recommendation
It was confirmed by the State Finance Circular No. 02/2018 dated 18 August 2018 of the Treasury Secretary that it was decided to close the Emissions Testing Trust Fund based on an approval of the Cabinet of Ministers. However, no	A cabinet memorandum had been submitted for the further maintenance of the fund. Accordingly, it was decided to maintain the Fund until the decision of	Carrying out the necessary tasks within the relevant legal environment.

measures were taken to appoint a liquidator and to settle the liabilities from the assets and credit the balance to the consolidated fund as per the circular even by the date of audit. The balance of the savings account at the end of the year under review was Rs. 259 million only. Since the Secretary of the Treasury was one of the two parties to this Fund established under a Trust deed, the Fund shall be abolished on the declaration of the Secretary of the Treasury pursuant to paragraph 11(a) of the Trust Deed. Accordingly, one party has already withdrawn from the relevant contractual obligation upon the issuance of the above circular by the Secretary of the Treasury. Therefore, the legitimacy of the existence of the Fund was problematic. As a result, a decision was taken at a meeting of the Board of Trustees chaired the Deputy Secretary of the Treasury to maintain the Fund until taking a cabinet decision for the relevant Fund.

the relevant Cabinet is received at a meeting of the Board of Trustees chaired by the Treasury Deputy Secretary. A request was made to the Minister of Transport to submit a cabinet memorandum.

1.5.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
(a) Even though the governing body of the Emissions Testing Trust Fund has received grants from the inception of the Fund, the legal approval for receipt of those allowances was not submitted to the audit. The amount so paid was Rs.142,000 within the year under review.	Allowances have been paid to the governing body from the beginning of the Fund, and it has been done as per the circular No. PED/03/2015 dated 17 June. Measures have been made to obtain the approval for the payment of allowances related to the governing body of the Fund as indicated by the audit.	Only the payments with legal approvals should be made.
(b) No system was introduced to check the accuracy of the information received from the emission testing companies and to check whether the government received the right amount of revenue due to non-	We made a request to the ICTA to re-establish the data system in year 2021 also. New proposals have been submitted to the ICTA to overcome these shortcomings for the ERL 2	Income should be properly verified.

functionality of the existing programme to be newly information system (ICTA) for implemented. Further, the examining the fees charged by the information such as the emission testing companies. As a amount of revenue licenses result, the amount of issued annually has also been Rs.272,112,255 remitted to the obtained by ICTA. Fund by the companies conducting emission tests could not be satisfactorily verified during the audit.

- (c) The value of fixed assets with 05 components owned by the Fund by the end of the year under review was Rs. 55.95 million, and the asset register was not updated so that each asset could be specifically verified.
- The fixed asset register is being updated. Codification of fixed assets will also be done simultaneously with updating the register.
- Maintaining a properly updated fixed asset register.

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Observation -----	Comments of the Management -----	Recommendation -----
Even though an amount of Rs.2,550,847 had been paid to the Accreditation Council of Sri Lanka, Peradeniya and Moratuwa Universities for research reports on air pollution evaluation, the payments were accounted as advanced payments since the relevant works have not been completed by those institutions so far. The delay period has exceeded 04 years by now. However, no measures have been taken by the governing body of the Fund to settle these payments.	All reports relevant to the researches which were paid for by the Vehicular Emission Trust Fund and carried out by the University of Peradeniya and Moratuwa have been received to us. The money given by the Fund to the Sri Lanka Accreditation Board has been used by them for a capacity development programme for officials related to inspecting vehicle emissions testing centers, and arrangements are being made to obtain its expenditure reports.	Action should be taken promptly to obtain relevant reports and settle the payments.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) State Finance Circular No. 01/2020 dated 28 August 2020 and F. R. 876 (2) (a)	If it appears that the operation of the existing funds is a national exigency and if the said funds have not been duly approved by an Act in the Parliament, the approval of the Parliament should be obtained within one year of the issuance of this circular for those funds. However, the fund had not still taken steps to get such approval.	The Board of Trustees met under the chairmanship of the Deputy Secretary of Treasury and discussed the existence of the Fund and decided to maintain the Fund until receiving the cabinet decision. A request has been made to submit a cabinet memorandum to the Minister of Transport.	Circular should be followed.
(b) Financial Regulation 877 (2) d	Even though the performance reports should be prepared within 02 months after the end of the accounting year and submitted to the Auditor General with copies to the Director General of Public Finance, no such performance report was prepared.	A performance report has not been prepared. It will be forwarded to the relevant institutions in due course as it is currently being prepared.	-do-

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to surplus of Rs. 248,572,349 and the corresponding surplus in the preceding year amounted to Rs. 250,382,868. Therefore a deterioration amounting to Rs. 1,810,519 of the financial result was observed. Decrease in income of the year by Rs. 15,550,291 had mainly attributed to the said deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though the posts have been approved for the Emissions Project Office proposed to be established as a division under the Department of Motor Traffic in terms of the Management Services Department letter No. MT/02/01/01/02/11/II dated 10 December 2017; adequate measures have not been taken still to deal with it.	Even though the designations for staff was prepared and submitted to Department of Management Services, the posts for the Project Office are proposed to be taken from Government approved services as mentioned in the letter No. MT/02/01/01/02/11/ii dated 10.12.2017 of Management Services Department (Annexure-07). Therefore, a problem has arisen by now regarding the absorption of officers working in the Trust Fund into those services.	Follow the recommendations of the Management Services Department letter.
(b) Even though the arrangements have been made to provide petty cash advances and fuel advances through the vehicular Emission Test Trust Fund, no measures had been taken to record those advances in an advance register. It is observed that there is insufficient internal control during the issue of advances.	Even though separate advances have been obtained for petty cash and fuel, a separate expense summary has not been maintained for that. Therefore, separate advance registers are maintained for petty cash and fuel advances from the year 2022 as indicated by the audit.	Determining the necessary practices for good internal control.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
(a) It is observed that the budget was not used as an effective management control tool due to savings ranging from 37 percent to 83 percent as a result of overestimation of 04 basic cost components.	Measures will be taken to manage the budget effectively during the coming years as the programmes could not be implemented as planned due to the COVID-19 epidemic situation in the country.	Accurate estimates should be prepared.

- (b) Even though activities valued Rs.46 million were identified for nine (09) projects under the capital programme, only two projects out of them have been implemented and an amount of Rs. 697,288 had been spent for the same. The value of the projects proposed to be implemented had taken a quantitative value of 71 percent compared to the total budgeted expenditure. Maintenance of Fund spending only on recurring expenses for daily needs and without performing any developmental work to achieve the objectives was problematic whether it is economically viable.
- The provisions have been left due to the inability to implement the programmes as planned under the existing Covid epidemic situation. Missed programmes were brought forward. Accordingly, arrangements are being made to allocate funds for awareness programmes, on-site inspections, and projects brought by stakeholder organizations.
- Action should be taken to achieve the identified goals.