

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 2024 comprising the statement of financial position as at 31 December 2024, the statement of financial performance, statement of changes in equity, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information, 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 report 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 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I expressed qualified opinion 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 Standard, 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, 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 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 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 skepticism 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
- 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 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) In terms of No. 3(2) of the Rewards and Incentive Fund Regulations No. 04 of 2011, the amount of Rs.7,989,174 corresponding to the 5% to be retained from the total earnings, had been reduced as an expense in the Statement of Financial Performance. As a result of that, the surplus for the year had been understated by Rs.8,197,052.	The 5% amount to be retained from future earnings will be recorded as a deduction from the accumulated fund through the statement of changes in equity without doing any adjustment in the statement of financial performance.	All allocations from annual surplus should be done in the change in equity statement.
(b) Although, the year-end balance in the cash flow statement for the year under review should have been Rs.24,450,864, it was under-reported by Rs.99,999.	The cash flow statement has been prepared correctly and although total of the net cash increase and the opening balance for the year is Rs.24,450,864, due to an addition error, it has been recorded as Rs.24,350,865. Instructions were given to ensure that such errors do not occur in the future.	The balance, must be confirmed by source documents.
(c) In accordance with paragraph 2 of Sri Lanka Public Sector Accounting Standard 1 and, paragraph 4.1 of Financial Regulation 877(2)(c) Guideline 04 which is introduced by inlining with paragraph 15.1 of Public Finance Circular 01/2020 - Part I, the financial statements are to be prepared on the accrual basis, nevertheless, the accounts for the Board of Governors allowance, Financial Controller's Allowance and Telephone Expenses had been prepared on cash basis.	The action will be taken to use the accrual basis to prepare the accounts in future and to record the accruals for the year by correcting the journal entries.	Expenses should be recognized on an accrual basis according to public sector accounting standards.

1.6 Unauthorized Transactions

Description of Unauthorized Transaction	Management Comment	Recommendation
While the Treasury Circular No. P.E.D. 3/2015 dated 17th June 2015 did not include legal provisions for the payment of allowances	Under the provisions of the Act, 1% has been allocated for administrative expenses and the Board of	The functions should be adhered to the

to the Governing Board of this Fund and the payment of financial controller allowances, allowances totaling Rs.354,000 have been paid to the Governing Board of the Fund during the year under review without formal approval.

Governors' Allowance and Financial Controller's Allowance have been paid subject to the approval of the Governing Board.

Treasury circulars, rules and regulation.

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

Reference to Non-compliance	Non-Compliance	Management Comment	Recommendation
Financial Regulation 877(2)(c) introduced under paragraph 15.1 of Part I of Public Finance Circular 01/2020	Although all receipts and payments of a statutory fund should be properly recorded in appropriate journals and ledger accounts based on source documents, journal entries and receivables and payables ledger accounts had not been prepared for the total amount of Rs.76,611,155 in respect of income receivable, incentives payable, Board of Directors allowances, Financial Controller allowances and telephone expenses relating to the Rewards and Incentive Fund for the year under review.	Ledger accounts are maintained for the Incentive Fund and the expenses shown had been identified and accounted for as administrative expenses. It has been noted that, to prepare and maintain separate ledger accounts for those expenses in the future.	As per the circular, transactions and information related to the year should be recorded in the relevant journals and ledger accounts.
(i) Guidelines 04 Sub - paragraph 01			
(ii) Guidelines 04 Sub - paragraph 02	In terms of Financial Regulation 445 the cash book entries and cash balance should be signed by the responsible supervisor or staff officer to account for the receipts and payments of funds in terms of the provisions of Financial Regulation 446(2), Although, the receipts and cash balance in the cash book had not been confirm correctness by signing.	Instructions were also given to sign the receipts to confirm their accuracy.	The entries in the cash book and the cash balance must be accurate by adhering compulsions of the financial regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.12,180,506 and the corresponding surplus in the preceding year amounted to Rs.16,397,208. Therefore an decrement amounting to Rs.4,216,702 of the financial result was observed. The reason for the decrement is increase of operational expenses by Rs.25,428,061 compared to the previous year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although provision is included for payment reward money for persons who provide information to the Commissioner of Motor Traffic about persons who committing motor vehicle irregularities and identify information related to erroneous activities/detect erroneous activities as per No.3(1) of the Directives (Rewards and Incentive fund) for motor vehicles, No.04 of 2011, the formal procedure had not been established to provide information regarding above fact and to inform the people about the reward system.	Steps were taken to inform the Board of Directors to implement a formal program in this regard in the future.	Attention should be paid to prepare a formal procedure in order to achieve the objectives of the fund.
(b) Although half of the penalties under court cases assigned by the Department of Motor Traffic as per the section 213 d (2) of the Motor Traffic Act and money prescribed under section 213(e) of the Motor Traffic Act or by the Director General of customs or under any other written law should be paid to the rewards fund, any income had not been received by the fund from the aforesaid sources and any arrangement had not been made by the management of the fund to collect money for the fund from that sources.	Necessary steps will be taken to prepare a suitable program to recover funds from the relevant sources.	A procedure should be built up to obtain information related to the penalties under court cases assigned by the Department of Motor Traffic as per the section 213 d (2) of the Motor Traffic Act, as well as customs penalties and charges accordingly custom ordinance.