

Sri Lanka Transport Board - 2018

1. Financial statements

1.1 Disclaimer of Opinion

The audit of the financial statements of Sri Lanka Transport Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended including a summary of significant accounting policies, 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 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

I do not express an opinion on the financial statements of the Board for the year 2018 due to the significance of the matters described in paragraph 1.5 of this report.

1.2 Basis for Disclaimer of Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 disclaimed 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 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Scope of the Audit (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 the effectiveness of the Board'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 Board'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. However, future events or conditions may cause the Board 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 Board and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations relating to the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Comment of the Management	Recommendation
a) In order to obtain the overdraft facility, fixed deposits worth Rs. 325,100,000 had been provided as sureties. However, no disclosures had been made in that connection contrary to Sections 14 (a) and (b) of Sri Lanka Financial Reporting Standard 07.	This is only an overdraft facility, and had not become a liability or a contingent liability as at the date of the balance sheet in accordance with Sections (a) and (b) of SLFRS 07.	Disclosures relating to the accounting process should be made in accordance with the relevant Standard.
b) Lands and buildings valued at Rs. 270,654,512 shown under assets in the financial statements as at 31 December 2018 had not been revalued in terms of Sri Lanka Accounting Standard 16; nor had they been separately brought to accounts in terms of Section 58 of the Standard.	Identification and valuation of fixed assets have been mentioned in the Paragraph Nos. 07-39 in terms of LKAS 16. As such, it has not been mentioned that lands and buildings should be separately identified.	Lands and building should be separately identified and brought to accounts, and revaluation should be done in accordance with the Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
a) Contributions to the Employees' Provident Fund, Employees' Trust Fund and surcharges on gratuity totalling Rs. 49,796,553 paid by the	The said error has occurred.	Errors should be rectified and adjustments should be made accordingly.

Udahamulla Depot relating to the preceding years, had been shown as an expenditure of the year under review. As such, the profit had been understated by that amount in the financial statements.

- b) The sum of Rs. 4,470,901 received by allowing the playground of the Board to be used by external persons and institutions, had been credited to the account of the sports association instead of being credited to the revenue of the Board. As such, revenue of the Board had been understated in the accounts by that amount. That income is credited to the sports administration account as per the approval given by the Chairman. Income of the Board should be credited to the revenue of the Board rather than being credited to external accounts.
- c) The sum of Rs. 30,371,875 received as compensation for a land acquired by the Government in the year 2016 had been credited to the other revenue account instead of being credited to a reserve account. Furthermore, action had not been taken to credit the cost on this land to the lands and buildings account, and the compensation received for the land had not been shown under investment activities in the cash flow statement. The said amount is only a compensation received with respect to the land that had been used for an activity of the Government. The SLTB had not incurred any expenditure thereon. As such, the said amount had been identified as other income. The said amount should be shown in the relevant account and the cash flow statement correctly.
- d) Short term investments of the Board (REPO) valued The said accounting error had occurred. Accounting errors should be corrected.

at Rs. 350,000,000 had been shown in the financial statements at the end of the year 2018. However, an interest income receivable thereon amounting to Rs. 2,549,442 had not been identified in the year under review. As such, revenue of the Board had been understated by that amount.

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| e) | As 6,600 liters of fuel purchased at the value of Rs. 666,000 on 01 January 2019 had been included in the closing stock value of the year under review, the profit had been overstated by that amount. | The said accounting error had occurred. | Accounting errors should be corrected. |
| f) | The value of commissions and discounts relating to purchases made in the year under review, totaled Rs. 165,655,405. As the said value had again been included in the purchase value of the revenue statement, the value of purchase and income from commission & discounts had been overstated by that amount. | Commissions given on diesel purchased by the depots had been included therein. | Trade commissions should not be brought to accounts. |
| g) | Value of fixed deposits pertaining to the office of the central bus station had been shown as Rs. 22,419,960 though, that balance amounted to Rs. 22,855,062 as per | This error has occurred as interest on fixed deposits had not been considered in accounting process. | Interest on fixed deposits should be brought to accounts correctly. |

certificates of the fixed deposits. It was observed that failure in accounting the interest income of Rs. 435,102 received from the fixed deposits had attributed to the said difference. As such, the interest income had been understated by that amount whilst the value of fixed deposits had been overstated also by the said amount

1.5.3 Unreconciled Control Accounts

Item	Value as per Financial statements	Value as per Corresponding Reports	Difference	Comment of the Management	Recommendation
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	Rs.	Rs.	Rs.		
a) Differences totalling Rs.3,434,376 was observed in examining the creditors' schedules furnished by the depots and trade debtor balances shown in the financial statements as at 31 December 2018.	232,541,414	231,051,668	3,434,376	The said error had occurred during the preparation of schedules.	The relevant reconciliations should be done correctly thus showing the accurate values in accounts.
b) The overdraft value of the Deraniyagala depot amounted to Rs. 2,127,679 as at 31 December 2018, but the	5,778,641	2,127,679	3,650,962	The balance as per bank statement of the Deraniyagala depot had been shown as Rs. 2,127,670 whereas	The relevant reconciliations should be done correctly thus showing the

same had been shown as Rs. 5,778,641 in the financial statements of the Board thus observing a difference of Rs. 3,650,962.

balance as per the cash book had been shown as Rs. 5,778,641, and that value had been shown in the financial statements.

The reason attributable to that difference had been pointed out in the bank reconciliation statement.

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| c) Two fixed deposits were observed as per the letters of confirmation of balances relating to the depot in Embilipitiya as at 31 December 2018. Those fixed deposits had balances amounting to Rs. 16,563,317 and Rs. 1,581,212. However, the trial balance indicated a sum of Rs. 16,400,000, and a difference of Rs. 1,744,529 was observed as per the statement of financial position. | 16,400,000 | 18,144,529 | 1,744,529 |
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The fixed deposit of the Embilipitiya depot had been renewed along with the interest after reaching maturity. As that had not been brought to accounts, the value had been added to the fixed deposit together with the interest. The error had occurred due to the sum not being brought to accounts.

The investment s and the interest thereon should be brought to accounts correctly.

1.5.4 Transactions without Authority

Description on the Transactions without Authority	Comment of the Management	Recommendation
Of the sum received from the Treasury in the year under review for purchasing spare parts and maintaining transport services at concessionary rates, Rs. 4,892,941,638 had been spent on the salaries of officers, drivers and conductors of the Board without being approved by the Treasury.	Not replied.	Funds should be spent only on the purposes intended by the Treasury.

1.5.5 Dormant Account Balances

Audit Observation	Comment of the Management	Recommendation
Dormant account balances totalling Rs. 1,290,582,782 and Rs. 18,526,264,583 had been brought forward without being settled under non-current assets and non-current liabilities respectively in the statement of financial position. However, the accuracy or existence thereof could not be verified	In the year 2017, a debit balance of Rs. 9,935,459,128 along with a credit balance of Rs. 26,054,954,882.06 had existed in the dormant account. A Committee comprising 03 members were appointed in order to settle those balances. That Committee settled a debit balance of Rs. 8,644,676,346.73 and a credit balance of Rs. 7,528,690,099. Thereafter, the Treasury representative left the Committee, and although a new member was appointed, the new Committee could not hold meetings owing to the pandemic in the country.	Action should be taken to settle those balances.

1.5.6 Lack of Documentary Evidence for Audit

Item	Value	Unfurnished Audit Evidence	Comment of the Management	Recommendation
	Rs.			
Balance of sundry debtors.	108,227,804	Schedules and age analyses.	Particulars and schedules in that connection had separately been furnished to your office as regional offices, depots, and head office.	Particulars and schedules relating to receivable and payable balances should be made available to the Audit.
Outstanding balance of the conductors.	5,784,775			
Cashier's outstanding	34,391,996			

balance.	
Trade debtors.	3,444,436,890
Capital and other reserves.	5,301,844,512
Equity capital.	350,000,000
Treasury capital.	3,944,890,550
Fixed deposits.	700,920,663
Government grants.	2,981,392,313
Dormant accounts (debit balance)	1,290,782,782
Fixed assets.	29,391,137,146
Dormant accounts (credit balance)	18,526,264,783
Advances for local purchases.	203,913,674
Refundable employee deposits.	156,966,291
Court deposits receivable.	7,994,271

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Observation	Comment of the Management	Recommendation
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The unsettled balance of advances on local purchases amounted to Rs.1,511,690,256 as at 31 December 2018. That advance comprised balances of advances that had remained unsettled since the year 2011, and it was observed that a sum of Rs. 1,135,202,561 therefrom had been given as advances in the years 2013 and 2014. Accordingly, expenses and balances of assets had been understated.	The Board of Directors have been informed on the advances remaining unsettled thus far. Those advances belonged to the years 2013, 2014, and 2015.	It is essentially necessary to draw attention on granting and settlement of advances.

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

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Section 02 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	The Board had not prepared an organizational chart for the staff, a Scheme of Recruitment and a scheme for promotions and obtained approval of the Department of Management Services.	Not replied.	The Scheme of Recruitment and the scheme for promotions should be approved and implemented in terms of the Circular.
b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulation 110.	The Board had not maintained records on damages.	According to the procedure followed by the Board, books and reports are maintained in respect of damages caused by accidents or losses caused on other assets.	A register on losses and damages should be maintained in terms of Financial Regulations.
(ii) Financial Regulation 381.	The Treasury should be requested when opening official bank accounts. However, without obtaining Treasury approval, 18 current accounts had been maintained by the Board as at 31 December of the year under review.	Those bank accounts had been in existence since the preceding years. At present, action has been taken to discontinue all the unnecessary bank accounts.	Proper procedure should be followed in opening and maintaining the bank accounts.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs. 1,285,969,924 as compared with the corresponding profit of Rs. 1,618,237,714 in the preceding year, thus observing a deterioration of Rs. 332,267,790 in the financial result. This deterioration had mainly been attributed by the increase in operating expenses by Rs. 171,491,777.

2.2 Analysis on Trends in main Items of Revenue and Expenditure

- As against the preceding year, the income from *Gami Sariya* and transport of newspapers included in main revenue of the Board had decreased by 100 per cent and 76 per cent respectively in the year under review. Furthermore, revenue from the fuel mart and circuit bungalows had also decreased by 93 per cent and 48 per cent respectively.
- Expenditure on overtime payments made to the drivers and conductors of the Board had increased by 18 per cent in the year 2018 as compared to the year 2017 whilst the expenditure on fuel for busses had increased by 12 per cent and other special allowances and repair & maintenance expenses had also increased by 31 per cent and 57 per cent respectively.

2.3 Ratio Analysis

- Current ratio of the year under review was 1.66 which was considered low as compared with that of the preceding year being 1.76 thus observing to be a favorable situation.
- The profit ratio of the year under review had decreased by 1.25 per cent as compared to the preceding year, and the increase in operating expenditure by Rs. 2,001,516,678 had mainly attributed thereto.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) Due to failure of the Board in regularly contributing to the Employees' Provident Fund and Employees' Trust Fund, an expenditure of Rs. 183,725,038 had to be incurred as surcharges in the year under review.	Due to the unfavorable financial situation of the Sri Lanka Transport Board, gratuity could not be paid on time to the employees who had been retired prior to the year 2018. The surcharges paid thereon, have been shown here.	Contributions to the Employees' Provident Fund and other payments should be made on time thus preventing surcharges from being paid.

- b) The total of cash and cash equivalents of the Board amounted to Rs. 3,968,913,250 by the end of the year under review. However, overdraft facilities had been obtained in many instances and Overdrafts totalling Rs. 131,747,317 had been maintained by the end of the year. A sum of Rs. 9,115,565 had been paid as interest thereon during the year under review.
- The Sri Lanka Transport Board experienced a severe financial crisis until the year 2018, and hence, overdraft facilities had been obtained by the depots during that time.
- Interest paid on overdrafts should be minimized through proper management of working capital of the Board.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
<p>A register on lands and files had not been maintained relating to the miscellaneous institutions maintained by the Board in different areas such as regional offices, depots, driving schools and regional workshops. Furthermore, titles of 160 lands where depots and regional workshops of the Board had been maintained, were not settled; and, fences had not been erected by demarcating the lands being in use or not.</p>	<p>The Heads of relevant institutions have been informed to erect boundary fences around the lands being used by Sri Lanka Transport Board, and approval of the Board of Directors have also been given thereon. Those lands should be surveyed prior to erecting fences, and heavy expenses would be incurred in that connection. As such, following instructions of the Senior Assistant Secretary (Lands) of the Ministry of Transport Services Management, the necessary documents will be prepared and sent to the Secretary to the Ministry. Thus, the relevant Divisional Secretaries would be summoned under his patronage, and those lands would be surveyed at once thereby vesting the title of the lands in Sri Lanka Transport Board. As such, the fences would be erected thereafter.</p>	<p>Documents and deeds should be properly prepared thereby ensuring the titles of lands. Fences should also be constructed properly.</p>

3.3 Deficiencies in Contract Administration

Audit Observation	Comment of the Management	Recommendation
<p>The Board had collected the equipment from Vehicular Emission Test Trust Fund of the Department of Motor Traffic on 26 April 2018 in order to establish 09 vehicle emission testing centers in 09 provinces. Construction of those centers had been done through a feasibility study. The centers in Kurunegala and Medawachchiya had been constructed and declared open, but remained closed due a legal issue. Equipment worth Rs. 18.75 million remained idle at those centers, and of the sum amounting to Rs. 89.84 million estimated for civil construction works required for the said assets to be made use of, only a sum of Rs. 22.48 million had been spent as at 30 September 2019. Furthermore, certificates should be issued after installation of vehicular emission testing equipment, and the data relating to the certificates so issued should be uploaded to the Vehicular Emission Test Trust Fund. However, Internet facilities had been obtained from Sri Lanka Telecom in that connection by paying Rs. 164,280, but the project had not been completed by the end of the year under review.</p>	<p>Those equipment had to be obtained by Sri Lanka Transport Board following a decision taken at the progress review meeting held in the first quarter of the year 2018. As the Cabinet had approved that the said project proposal be implemented through the Sri Lanka Transport Board, the necessary constructions were made.</p>	<p>Capital projects should be implemented by taking into consideration the reports of the feasibility studies, cost/benefit reports, and environmental protection reports.</p>

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
<p>The annual financial statements and the draft annual report of the Statutory Boards should be presented to the Auditor General</p>	<p>Not replied.</p>	<p>The financial statements should be presented to the Audit within 60</p>

within 60 days after the end of the year of accounts in terms of Section 11 of the Finance Act, No. 38 of 1971 and Section 6.5.1 of the Public Finance Circular, No. PED/12 dated 02 June 2003. Nevertheless, financial statements of the year 2018 had been presented on 19 June 2020 after a delay of 02 years 03 months and 19 days.

days after the end of the year of accounts.

4.2 Tabling of Annual Reports in Parliament

Audit Observation	Comment of the Management	Recommendation
The annual reports had last been tabled in Parliament for the year 2017.	Not replied.	After the statements of accounts being properly audited, the annual reports should be tabled in Parliament

4.3 Corporate Plan

Audit Observation	Comment of the Management	Recommendation
The Corporate Plan had not been prepared and presented to the Audit in terms of Public Enterprises Circular, No. PED/12, dated 02 June 2003.	Not replied.	The Corporate Plan should be prepared and presented in terms of the Circular.

4.4 Action Plan

Audit Observation	Comment of the Management	Recommendation
According to Section 5.1.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, an Action Plan should be prepared by clearly identifying the responsibility of the management so that the objectives and targets would be achieved within the scheduled period. However, the Action Plan presented had been prepared by including nonrealistic objectives and targets without considering the financial position of the Board.	Not replied.	The Action Plan should be prepared in accordance with the Circular.

4.5 Sustainable Development Goals

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
Sustainable development targets had not been identified and a sustainable development plan had not been prepared in accordance with Circular, No. NP/5P/5DG/17 of the Ministry of National Policies and Economic Affairs dated 14 August 2017.	Not replied.	Sustainable development targets should be identified and the plans should be prepared accordingly.

4.6 Internal Audit

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
An Internal Audit Unit had been established. However, the Chief Internal Auditor thereof should have been an officer of Grade 1, but that position was held by a Grade III officer, and the actual cadre was 90. The internal audit plan had been presented to the Auditor General though, that plan had not covered the necessary areas relating to the Sri Lanka Transport Board such as, operating inefficiencies, fuel consumption, maintenance services, idle stocks, efficiency and quality of the bus service, and existence and safety of fixed assets.	Not replied.	The internal audit plan should be prepared and implemented by covering main areas of the Board in accordance with the Circular.

4.7 Budgetary Control

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
A report on budgeted capital expenses in accordance with statement of budgeted revenue and expenditure, budgeted balance sheet, budgeted cash flow statement, and the Action Plan, had not been prepared contrary to	Not replied.	Budget reports should be prepared in accordance with the Circular.

Section 5.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.

4.8 Environmental Issues

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
<p>A standard and approved methodology should be followed in disposing of oily substances of the yards at the premises of depots. A license should be obtained in that connection from the Central Environmental Authority in accordance with Gazette Extraordinary, No. 1533/16 dated 25 January 2008 and National Environmental Act, No. 47 of 1980. Nevertheless, other depots of the Board, except for 09 of 107 depots, had not obtained that license.</p>	<p>All the depots have been instructed to obtain environmental protection licenses.</p>	<p>The rest of the 84 depots which had not obtained the environmental protection licenses, should take action to obtain the license.</p>