

Vehicular Emission Test Trust Fund of the Department of Motor Traffic - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, 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(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 tabled 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 2020, and its financial performance and cash flows for the year then ended in accordance with 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 (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 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 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 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:

- 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 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

Audit Observation	Comment of the Management	Recommendation
Allocations for cumulative depreciation on motor vehicles and emission testing equipment for the preceding year had been understated and overstated in accounts by sums of Rs. 3,332,981 and Rs. 338,332 respectively. However, that had not been corrected even in the year under review.	The value of the closing balance of the account is correct. The correct schedule of assets were made available to the Audit.	Books of accounts should be maintained in a manner so that the values shown in the financial statements and the notes relevant thereto, should be tallied with each other.

1.6 Going Concern of the Fund

Audit Observation	Comment of the Management	Recommendation
<p>It was verified in accordance with the Public Finance Circular, No. 02/2018 of the Secretary to the Treasury dated 18 August 2018 that a decision had been reached to liquidate the Vehicular Emission Test Trust Fund in the wake of a Cabinet approval received. Nevertheless, No action had been taken even up to 15 March 2021 to appoint a liquidator in accordance with the Circular, and set assets off against liabilities thereby crediting the balance to the Consolidated Fund. By the end of the year under review, the balance of only the savings account of the Fund amounted to Rs. 686 million. The Secretary to the Treasury was one of the two parties of the Fund that had been established under a trust deed. As such, the Fund becomes revoked based on the statement of the Secretary to the Treasury in terms of Paragraph 11(a) of the trust deed. Accordingly, as the said Circular had been issued by the Secretary to the Treasury, one party had already left the agreement. Thus, the legality in the existence of the Fund remained questionable. Hence, it had been decided to continue the maintenance of the Fund until a Cabinet decision was reached by assembling the board of trustees under the patronage of the Deputy Secretary to the Treasury.</p>	<p>A Cabinet Memorandum had been presented in order to further maintain the Fund. As such, it had been decided to continue the maintenance of the Fund until a Cabinet decision was reached by assembling the board of trustees under the patronage of the Deputy Secretary to the Treasury.</p>	<p>Necessary action should be taken by adhering to the relevant legal provisions.</p>

1.7 Non-compliances with Laws, Rules, and Regulations

Reference to the Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
<p>Financial Regulation 877(2) (d) as amended by Section</p>	<p>Performance reports should be prepared and</p>	<p>It is informed that action will be taken in due course to</p>	<p>The Circular should be followed.</p>

15 of the Public Finance Circular, No. 1/2020 dated 28 August 2020. presented to the Auditor General with a copy to the Director General of Public Finance within a period of 02 months after the end of the year of accounts. However, such a performance report had not been prepared. furnish reports in accordance with Public Finance Circular, No. 01/2020 dated 2020.08.28.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs. 250,382,868 as compared with the corresponding surplus of Rs. 261,872,618 for the preceding year, thus observing a deterioration of Rs. 11,489,750 in the financial result. The decrease in the income of the year by Rs. 16,220,560 had mainly attributed to the said deterioration.

3. Operating Review

3.1 Performance

Audit Observation	Comment of the Management	Recommendation
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<p>(a) The following observations are made with respect to the procurement of 02 stationary equipment for measuring circulating air quality and 02 digital LED display boards.</p> <p>(i) Bids had first been requested in the year 2013 for procuring those items by deviating from Guideline 2.4.1 of the National Procurement Guidelines. However, without making the purchase, bids had been invited again in the year 2016. Nevertheless, no purchases had been made even in that instance. As for</p>	<p>This had paved way for purchasing state-of-the-art equipment. The procurement timetable will be followed hereafter.</p>	<p>Public funds should be utilized ensuring maximum performance.</p>

calling for bids in the year 2018, purchases had been made on higher bid values from an institution which had submitted bids in the previous instances. As such, a financial loss of Rs. 17,176,000 had occurred.

- (ii) The procurement notice had not been published on the website of the National Procurement Agency in accordance with Guideline 3.2.2(a) of the National Procurement Guidelines, but the notice had been published in 11 newspapers in the year 2016 by spending a sum of Rs. 240,982. As the procurement had been cancelled, the amount so spent, had become fruitless. With the objective of obtaining bids from several institutions, the notice had been published in mainstream newspapers. Funds should be utilized ensuring maximum performance.
- (iii) Two stationary equipment for measuring circulating air quality and 02 digital LED display boards purchased had been given to the Central Environmental Authority whereas the other mobile air circulation unit had been given to the National Buildings Research Organization. The data collected by those institutions, had been provided for the Fund since the year 2019 though, it was not verified as to whether such data had effectively been used in emission testing. Furthermore, the Fund had not taken action to enter into agreement with respect to safety, use, maintenance, obtaining measurements, and transmission of data relating to transfer the complete ownership of those equipment to the Central Environmental Authority and the National Buildings Research Organization. Public funds should be utilized ensuring maximum performance.

to those equipment purchased at a cost totaling Rs. 130 million.

(b) Except for the main function being the issue of emission test certificates and regulating the activities in that connection, it was not observed that the Fund had executed any other activity during the period 2012-2020. As such, the sum of Rs. 333 million spent by the Fund in the following manner on miscellaneous purposes, had become fruitless.

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| (i) | including the equipment mentioned in (a) above. | Equipment for measuring circulating air quality had been purchased for measuring the quality of air. | Public funds should be utilized ensuring maximum performance. |
| (ii) | Purchase of 43 Opacity Meters and 32 Gas Analyzers for examining diesel and petrol engines respectively at a cost of Rs. 72,628,764. | Replies furnished had been incomplete. | - Do. |
| (iii) | Reports of 02 researches conducted for evaluating the air pollution by spending a sum of Rs. 23,026,650, had not been received, and although the reports of 02 other researches had been received, the recommendations thereof have not yet been implemented. | The said reports will be obtained promptly. The research reports received have been forwarded to the Air Resource Management Center for policy decisions. | - Do. |

3.2 Operating Inefficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
A sum of Rs. 1,270,934,392 invested in fixed deposits with higher interest rates had been withdrawn in the year	The said amount could not be invested due to reasons such as, working from home following the epidemic prevailed in the country, and	Public funds should be used favorably.

under review and crediting a sum of Rs. 750 million to the Consolidated Fund. As being pointed out by the Audit, it is noted to productively invest the surplus amount.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
<p>As overestimates had been prepared for 04 components of expenditure, savings ranging from 69 per cent to 99 per cent had occurred. As such, the budget had not been made use of as an effective instrument of management control.</p>	<p>The programs planned could not be implemented due to the epidemic. As being pointed out by the Audit, it is noted to use the budget as an effective instrument of management control.</p>	<p>Accuracy should be ensured in preparing the estimates.</p>