

Sri Lanka Transport Board - 2020

1. Financial statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Sri Lanka Transport Board for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Sri Lanka Transport Board due to the significance of 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 disclaimer of 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 Audit (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:

- 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 Internal Control over the Preparation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be rendered to the Auditor General within 60 days after the close of the financial year. However, financial statements of the year under review had been rendered only on 26 October 2021 with a delay of 8 months.	Preparation of final accounts of the Sri Lanka Transport Board had been delayed for many years. However, final accounts up to the year 2020 have been prepared avoiding that situation and presented to Audit.	As per the Circular, the final accounts should be presented to Audit on due date.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) The value of fixed deposits owned by the Board amounted to Rs.628,678,099 whilst a fixed overdraft facility had also been obtained from the People's Bank by providing fixed deposits valued at Rs.325,100,000 as sureties. However, no disclosures had been made in that connection in the financial statements in terms of Sections 14 (a) and (b) of Sri Lanka Financial Reporting Standard 7 (SLFRS 7).	Has not replied.	It should be brought to account in terms of Sections 14 (a) and (b) of Sri Lanka Financial Reporting Standard 7.
(b) Action had not been taken in terms of paragraph 58 of the	Has not replied.	It should be brought to account as per

	Standard 16 to recognize the value of lands and buildings of Rs.378,104,967 separately and to indicate them in the financial statements.		paragraph 58 of the Standard 16.
(c)	A portion of a land owned by the Board, located at Pokunuwita, Horana had been vested in the Government in the year 2016 for the construction of roads and the sum of Rs.30,371,875 received as compensation therefor had been credited to other Income Account instead of crediting to the Reserve Account with the objective of re-establishing it during that year. Moreover, action had not been taken to credit the cost of the land to the Land and Buildings Account and the compensation received for the land had not been indicated under investing activities of the cash flow statement.	Has not replied.	Relevant accounts should be brought to account and the cash flow statement should be prepared accurately.
(d)	Short term investments (REPO) of Rs.350,000,000 were available with the Board from the year 2018 and the interest income of Rs.2,549,442 receivable therefor had not been recognized for the year under review, thus understating the revenue of the Board by the same amount.	Has not replied.	As per the Standard, relevant income should be recognized and brought to account accurately.
(e)	Machinery valued at Rs.426,390,078 had been received to the Board during the year 2019/2020 under the Japan International Cooperation Agency. Of those machinery, 90 items valued at Rs.189,343,036 had been received in the year 2019 and action had been taken to debit those machinery to the Machinery Account in the year 2019 and to credit to the Capital Grant Account. A sum of Rs.38,663,394 had been paid in	Has not replied.	As per the relevant Standard, accounts should be brought to account accurately.

the year 2019 as customs duty to clear those assets from Customs. The said value had been capitalized and contrary to Sri Lanka Accounting Standard 16, a sum of Rs.322,194 had been depreciated, thus overstating the depreciation in accounts by the same amount.

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| (f) | In terms of paragraph 29 of the Standard 20, Government grants should be indicated separately in the statement of comprehensive income. However, season tickets, sisu seriya and nisi seriya subsidies amounting to Rs.5,677,857,594 had been indicated under operating income of the statement of comprehensive income. | Has not replied. | As per the relevant Standard, accounts should be brought to account accurately. |
| (g) | In terms of paragraph 20 of the Standard 17, the fair value of finance leases should be recognized as assets and liabilities in the statement of financial position. However, 272 buses and 53 buses with the seating capacity of 50 and 33 respectively valued at Rs.1,046,559,865 purchased in the year 2019/2020 on lease basis had not been indicated under assets of the statement of financial position. Further, an advance of Rs.263,435,339 paid for the purchase of 325 buses had been overstated in the leased creditors account by the same amount due to failure in debiting to the leased creditors account. | Has not replied. | In the purchase of buses, accounts should be brought to account accurately as per the Standard. |
| (h) | In terms of the Standard 7, a sum of Rs.187,186,000 received as the interest income had been indicated as a cash inflow of Rs.184,884,817 in the cash flow statement, thus understating the | Has not replied. | As per the relevant Standard, moneys received from investing activities should be brought to account accurately. |

moneys received from investing activities by Rs.2,301,826.

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| (i) | The investment of Rs.1,020,000,000 made in the year under review, had not been indicated as a cash outflow under investing activities of the cash flow statement in terms of the Standard 7. | Has not replied. | As per the relevant Standard, it should be brought to account accurately in the cash flow statement. |
| (j) | The increase of Rs.59,060,290 in fixed deposits of the year under review had not been indicated under investing activities of the cash flow statement in terms of Accounting Standard 7. | Has not replied. | As per the relevant Standard, it should be brought to account accurately in the cash flow statement. |
| (k) | Even though the difference of the Payment for Creditors Account between the year under review and the preceding year had been Rs.326,008,840, a sum of Rs.343,407,781 had been indicated as adjustments under operating activities of the cash flow statement, thus overstating the cash outflows by Rs.17,398,940 in the cash flow statement. | Has not replied. | As per the relevant Standard, it should be brought to account accurately. |
| (l) | In terms of paragraph 34 of the Standard 16, at the time of selling the land, the value should be revalued. However, action had not been taken to revalue the land at Werahera owned by the Board, in selling it to the General Sir John Kotelawala Defence University in the year 2018. A sum of Rs.4,554,000 had been received therefor up to the year under review and the said amount had been credited to the Creditors Account. Accordingly, the Creditors Account had been overstated by the same amount. Further, the sales value of the land of Rs.5,000,000,000 had not been credited to the Assets Account. | Has not replied. | As per the relevant Standard, it should be brought to account accurately. |

1.5.2 Accounting Deficiencies

	----- Audit Observation -----	Comments of the Management -----	Recommendation -----
i	A sum of Rs.4,470,901 received by renting out the stadium which was brought to account under fixed assets of the Board, to external parties and institutions for sports activities, had been credited to the Sports Club Account instead of crediting to the revenue of the Board, thus understating the revenue of the Board by the same amount in accounts.	Has not replied.	As per the Standard, it should be brought to account by identifying the revenue of the Board accurately.
ii	The down payment of Rs.263,435,339 paid for 325 buses obtained on lease basis in the year under review, had been indicated under pre payments.	Has not replied.	Action should be taken to make payments of the relevant transaction and to account accurately by identifying properly.
iii	No audit evidence whatsoever had been made available to Audit relating to dormant accounts debit balances of Rs.1,290,782,781 and dormant accounts credit balances of Rs.18,526,264,783 indicated in the statement of financial position. Further, schedules and source schedules relating to 09 account items valued at Rs.23,386,714,900 had not been made available to Audit.	Has not replied.	Information relating to relevant dormant accounts debit balances and credit balances and relating to 09 other account items should be made available to Audit.
iv	The total sum of Rs.4,054,000,000 comprising Rs.2,000,000,000 received in the year 2018 and Rs.2,054,000,000 received in the year under review from the General Treasury for vesting a land located at Werahera, owned by the Board in the Kotelawala Defence University, had been indicated under other payable balances without being accounted accurately. Moreover, the sum received in the year under review had not been indicated under investing activities of the cash flow statement.	Has not replied.	The accurate methodology for accounting should be followed to relevant transactions as per the relevant Standard.

v	Even though computers and information technology equipment should be shown under fixed assets, computers and equipment valued at Rs.42,878,983 had been included under stationery, thus understating the fixed assets by the same amount in the statement of financial position.	Has not replied.	Action should be taken to account relevant assets accurately.
vi	Ticket machines valued at Rs.378,354,463 according to bin cards relating to ticket machines, had been indicated as Rs.266,471,937 in the financial statements, thus understating the fixed assets by Rs.111,937,066 in the statement of financial position.	Has not replied.	The value of relevant assets should be brought to account accurately.
vii	The value of lands and buildings had not been identified separately and a depreciation value of Rs.1,569,663 had been indicated in the financial statements therefor in the year under review.	Has not replied.	Relevant assets should be identified separately and depreciated as per Standards.
viii	Action had not been taken to capitalize the air conditioners valued at Rs.1,935,404.	Has not replied.	Action should be taken to capitalize the relevant assets.
ix	The Board had not identified the accounting policy relating to the accounting of computer software and computer software valued at Rs.31,394,194 had been indicated under property, plant and equipment.	Has not replied.	Relevant assets should be recognized properly and adjusted accounts under correct categories.
x	Even though according to the trial balance, the daily online income amounted to Rs.57,150,354, the said value had been indicated as Rs.53,727,377 in the statement of financial position, thus overstating the balance in hand by Rs.3,422,977.	Has not replied.	Format balances and online balances should be identified and brought to account properly.

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| <p>xii. Even though the interest income was indicated as Rs. 184,884,183 in the Income Received Account, it was Rs.189,634,228 according to the balance sheet. Accordingly, the interest income has been understated in the statement of comprehensive income by Rs. 4,750,045, thus understating the income of the year under review by the same amount.</p> | <p>Has not replied.</p> | <p>The annual income should be identified properly and brought to account.</p> |
| <p>xiii. According to notes to accounts, other income had been indicated as Rs.11,986,655. However, according to the trial balance, the actual value of other income was Rs.14,471,809, thus understating other income by Rs.2,485,154 in the year under review.</p> | <p>Has not replied.</p> | <p>Other income should be properly identified and income of the relevant year should be accurately brought to account.</p> |
| <p>xiv. Even though income from driving schools had been indicated as Rs.13,894,207 in</p> | <p>Has not replied.</p> | <p>Payments for income creditors should be accurately accounted.</p> |

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| | accounts, the said income was Rs.14,471,809 according to the trial balance, thus understating the income from driving schools by Rs.577,602. | Has not replied. | Income should be properly accounted. |
| xv. | Even though the income from travel passes of Forces was Rs.142,858,305 as per Note 15 to accounts, according to financial statements, it was Rs.147,095,230, thus understating the income by the same amount due to inclusion of a sum of Rs.4,236,925 in the financial statements. | Has not replied. | Income should be properly accounted. |
| xvi. | The income from reservation of buses online amounting to Rs.1,140,750 had been included in the Online Reservation Control Account as a payable expenditure, thus understating the income by the same amount. | Has not replied. | Income should be properly accounted. |
| xvii. | Value of fuel stocks amounting to Rs.2,180,071 had not been included in the value of stocks of the statement of financial position, thus understating the stock balance by the same amount. | Has not replied. | The relevant fuel stocks should be accurately adjusted to the closing balance. |
| xviii. | The amount paid as annual bonus was indicated as | | |

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| | Rs.291,894,499
according to financial
statements and
Rs.291,347,479
according to the trial
balance, thus overstating
the financial statements
by Rs.547,020. | Has not replied. | Expenditure incurred
for relevant
allowances should be
properly accounted. |
| xix. | The creditors balance of
the Petroleum
Corporation for the year
under review was
Rs.41,491,285 and
Rs.63,997,291 according
to financial statements
and the trial balance
respectively, thus
understating the said
balance by Rs.22,506,006
in the financial
statements. | Has not replied. | The relevant accounts
should be accurately
reconciled and brought
to account. |
| xx. | Detailed schedules and
age analyses had not been
submitted for trade and
other receivable accounts
amounting to
Rs.2,864,130,067 and
balances of payable
accounts valued at
Rs.11,524,081,084. | | Action should be
taken to make
documented evidence
available for Audit. |
| xxi. | Fully depreciated and
condemned buses valued
at Rs.1,367,754,792 have
been indicated under
property, plant and
equipment in the
statement of financial
position for a period of 05
years and the Board had
not taken necessary
action thereon. | Has not replied. | The relevant
condemned buses
should be eliminated
from assets and action
taken for disposal. |
| | | Has not replied. | |

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| xxii. | According to financial statements of the year under review, a fuel stock surplus amounting to Rs.6,459,777 existed and it had been shown as income in the Profit and Loss Account and the attention of the Board had not been drawn towards the said matter. | Has not replied. | The fuel stock surplus cannot be considered as a profit and as it is beyond the actual situation, it should be properly adjusted. |
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1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Environmental Act, No.47 of 1980 and Gazette Extraordinary No.1533/16 of 28 January 2008	All depots should obtain a licence relating to service of vehicles. However, none of the depots of the Board had taken action to obtain the said licence. Moreover, attention of the Board had not been drawn towards cleaning purposes of the depot premises.	Has not replied.	Action should be taken in terms of the Act.
(b) Section 5.1.2 of Public Enterprises Circular No. PED/12 of 02 June 2003	Even though the Action Plan should be prepared based on goals and targets, the Board had not taken action accordingly.	Has not replied.	Action should be taken in terms of the circular.
(c) Section 5.2 of Public Enterprises Circular No. PED/12 of 02 June 2003	In the preparation of the Action Plan, budgeted income and expenditure statement, budgeted balance sheet and budgeted cash flow statement and the budgeted capital expenditure should be submitted. However,	Has not replied.	Action should be taken in terms of the circular.

the Board had not taken action accordingly.

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| (d) Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003 | The Draft Annual Report should be rendered to the Auditor General within 60 days after the close of the financial year. However, the financial statements have been rendered on 26 October 2021, with a delay of 306 days. | Has not replied. | Action should be taken in terms of the circular. |
| (e) Section 9.2 of Public Enterprises Circular No. PED/12 of 02 June 2003 | The organization chart and the Schemes of Recruitment and Promotion relating thereto had not been prepared and approval of the Department of Management Services obtained therefor. | Has not replied. | Action should be taken in terms of the circular. |
| Public Finance Circular No.2020/02 of 28 August 2020 | Even though action should be taken by identifying sustainable development goals in terms of the circular, the Board had not taken action in terms of the circular. | Has not replied. | Action should be taken in terms of the circular. |

2. Financial Review

2.1 Financial Results

The operations for the year under review resulted in a loss of Rs.2,103,088,144 as against the profit of Rs.474,106,589 of the preceding year, thus observing a decline of Rs.2,577,194,733 in the financial result. The decrease in income from operations by Rs.11,174,752,740 had mainly attributed for this decline.

2.2 Trend Analysis of Major Income and Expenditure Items

The income from tickets and travel permits comprised in the income of the Board had decreased by 39 per cent and 48 per cent respectively in the year under review as compared with the preceding year.

2.3 Analysis of Ratios

The current assets ratio of the year under review was 1:0.72 as compared with the corresponding current assets ratio of 1:0.76 of the preceding year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) Attention of the Board had not been drawn towards recovery of outstanding balances of conductors amounting to Rs.6,141,909 brought forward over a period of 02 years.	Has not replied.	Outstanding balances of conductors should be recovered during the respective year.
(b) The Manufacturing Account of the Board has indicated losses over a period of 03 years and the production deficit of the year under review was Rs.75,236,872. Attention of the Board had not been drawn towards utilizing manufactories with maximum capacity and maintaining them profitably by minimizing cost.	Has not replied.	According to the capacity of relevant manufactories, the Action Plan should be prepared and production targets set out accordingly and operated with maximum capacity.
(c) Even though the income from filling stations was Rs.2,125,594 in the year under review, a gross operating loss has been sustained due to payment of Rs.4,576,001 for salaries and other allowances.	Has not replied.	As a payment is not made for issuing fuel for vehicles of the Board from filling stations, losses occur. This should be properly settled.
(d) The filling stations have been continuously running at a loss for over a period of 03 years. However, the Board had failed to take any action therefor.	Has not replied.	When issuing fuel to vehicles of the Board, proper accounts should be maintained for filling stations.

