

## **Road Maintenance Trust Fund – 2013**

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The audit of financial statements of the Road Maintenance Trust Fund (RMTF) for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the income and expenditure statement and cash flow statement for the year then ended and a summary of significant accounting policies and the explanatory information 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 Section 11 of the Deed of Road Maintenance Trust entered into between the Secretary to the Treasury of the Government of the Democratic Socialist Republic of Sri Lanka and the Trustees of the Road Maintenance Trust Fund on 09 December 2005. My comments and observations on these financial statements appear in this report.

### **1.2 Establishment of the Road Maintenance Trust Fund**

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The Government of Sri Lanka (GOSL) had operated the Road Maintenance Trust Fund (RMTF), established with the approval of the Cabinet of Ministers and under the Trust Ordinance by a Deed of Trust signed on 09 December 2005. Initially, the RMTF is to provide funds for the roads maintained by the Road Development Authority (RDA), and eventually the roads maintained by the Ministry of Provincial Councils and Local Government is also included in the RMTF. Therefore, the current main beneficiary of funds for road maintenance paid out of the RMTF is the RDA, which is the executing agency for the maintenance of class A and B roads. The RMTF is managed by the Board of Trustees. The funds for the RMTF were being provided under the annual budgetary allocation. Initially International Development Association had agreed to fund US\$ 10 million from 2012 to September 2014 through Road Sector Assistant Project for financing periodic maintenance along with GOSL funds and US\$ 0.5 million for recurrent cost of the Trust Fund.

### **1.3 The Trust Fund**

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#### **Objectives of the Trust Fund**

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According to Section 4 of the Deed of Trust the objectives of the Trust Fund are;

- (a) to finance routine and periodic road maintenance programmes of national roads in a timely manner, to avoid deterioration of the road network,
- (b) to manage and develop the Trust Fund and from time to time invest any part thereof which will not be required for road maintenance activities immediately in such investments and securities in a prudent and conservative investment portfolio as may be fit and to hold sell or otherwise dispose of any such investments and securities to ensure highest returns to the Fund from such portfolio,

- (c) to obtain from any such government or other authority any rights, privileges, licenses and concessions in terms of the prevailing laws of the country that may seem conducive and or necessary to the objectives of the Trust,
- (d) to apply the income of the Trust whatsoever derived solely in promoting the above objectives and no distribution of any such income shall be made in cash or otherwise to any person or body other than for achieving of the objectives of the Trust,
- (e) to do all such lawful things as are incidental or conducive to the pursuit or in the attainment of any of the objectives of the Trust, and
- (f) to ensure that the TRUSTEES shall exercise the powers and discretions vested in them as they shall think most expedient for the achieving of the objectives of the Trust.

#### **1.4 Beneficiaries**

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According to Section 7 of the Deed of Trust, the beneficiaries under this TRUST shall be the Ministry of Highways, Ports and Shipping, the Road Development Authority (RDA), Ministry of Provincial Councils and Local Government and or their successors or any other state institutions as may be approved by the Government as a beneficiary to the Trust which are authorized to withdraw funds from the TRUST FUND.

#### **1.5 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### **1.6 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **1.7 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Road Maintenance Trust Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Deficiencies**

- (a) Value of Treasury Bill investments had been understated by Rs. 129,810 in the financial statements as at end of the year under review due to calculation error.
- (b) Payable to contractors for periodic maintenance funded by World Bank amounting to Rs. 63.395 million as at 31 December 2013 had not been brought to account.
- (c) As per the financial statement of the Fund, the total expenditure had been shown as Rs.203,127,778 whilst corresponding amount shown in the Treasury printouts submitted was Rs.227,259,039 thus showing a difference of Rs. 24,131,261.

## 2.2.2 Non compliance with Laws, Rules, Regulations and Management Decisions

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Following non compliances with Laws, Rules, Regulations etc were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non compliance</u>
(a) Public Finance Circular No. PF/423 of 22 December 2006 (i) Section 4	Annual budget of the Trust Fund should be prepared and submitted to the Director General of National Budget and Director General of State Accounts on or before 15 of September of the preceding year. However, the annual budget for the year under review had not been prepared and submitted as required.
(ii) Section 4.3	Annual performance report and statement of changes of accumulated fund had not been presented along with the financial statements as required.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003 (i) Section 7.4.1	Although the audit committee should meet on a regular basis at least once in 3 months, it had not met as required.

## 3. Financial and Operating Review

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### 3.1 Financial Results

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According to the financial statements presented, the expenditure of the Fund for the year under review amounted to Rs, 5,359,022,747 and the cumulative expenditure as at 31 December 2013 amounted to Rs.15,569,057,202. The following statement shows a summary of the expenditure for the year under review, to the preceding year and the cumulative expenditure as at 31 December 2013.

<u>Category of expenditure</u>	<u>Expenditure for the year ended 31 December</u>		<u>Cumulative expenditure as at 31 December 2013</u>
	<u>2013</u>	<u>2012</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
GOSL Projects	5,113,398,350	1,332,000,000	15,319,398,350
Co financed Projects	239,229,429	-	239,229,429
RMTF secretariat expenses	<u>6,394,968</u>	<u>4,034,455</u>	<u>10,429,423</u>
	<u>5,359,022,747</u>	<u>1,336,034,455</u>	<u>15,569,057,202</u>

## 3.2 Performance

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The following matters were observed.

- (i) The RMTF Secretariat should continuously engage in conducting technical audits on road maintenance on sample basis, using accepted road maintenance standards/manuals and confirm the quality of the maintenance in accordance with the key performance indicators. Although the RMTF Secretariat had conducted the technical audit on sample basis, relevant and appropriate criteria had not been identified and applied to report the various issues identified. Further, it was observed that evidence was not made available to audit whether, actions had been taken to rectify the issues identified by the respective parties.
- (ii) As per Section 19 of the Deed of Trust, the functions of the Trust should be reviewed after 3 years from the commencement of the Fund, to assess the effectiveness of the Trust in providing sustainable road maintenance financing and to examine the ways of improving the operation of the Trust. Although the Trust had been operated with effect from 1 January 2006, the Board of Management of the Trust Fund had not reviewed financial and physical performance of the Trust Fund.
- (iii) According to paragraph 4 of the Cabinet memorandum dated 25 October 2005, the Government should earmark Rs. 1 per each litre of petrol and Rs.0.50 per each litre of diesel from the revenue which the Government receives from the sale of petrol and diesel with effect from 01 January 2006 to be credited to the Trust Fund. Due to failure of implementation of this proposal, expected outcome could not be achieved.
- (iv) According to the Project paper signed between the IDA and Road Sector Assistant Project, US\$ 7 million required to be utilized as at 31 December 2013 for periodical maintenance. However, due to failure of implementation of the proposal Rs. 203 million equivalent to US\$ 1.5 million only had been utilized as at 31 December 2013.
- (v) Although there is a provision for non RDA works in RDA, a sum of Rs. 22,230,726 had been utilized out of funds amounting to Rs. 828,829,239 allowed for road maintenance of A and B roads in Western Province through RMTF.
- (vi) Although a sum of Rs. 81,550,939 had been spent for consultancy service of technical assistant to the establishment of RMTF Secretariat under Road Sector Assistant Project, it was observed in audit that the following recommendations in policies introduced by the consultant had not been fully implemented.

<b><u>Policy No.</u></b>	<b><u>Description</u></b>	<b><u>Observation</u></b>
xix	Release of fund to the RDA/Road Agencies should be made by RMTF Secretariat only for the road proposals approved and announced by the Board of Trustees.	Approval of the BOT had not been granted for the implementation of road proposals amounting to Rs. 5,352.6 million.
xxi	The RMTF Secretariat should continuously engage in conducting financial audits on road agencies on a sample basis.	RMTF had not conducted any financial audits.
xxix	The RMTF Secretariat should prepare its own budget for the management of the RMTF for the ensuring year and submit to the Department of National Budget.	The budget had not been prepared and submitted to the Department of National Budget.

### 3.3 Physical Performance

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 According to the information made available, the physical progress of road maintenance works in relation to the Road Maintenance Trust Fund as at 31 December 2013 were as follows.

<u>Description</u>	<u>Allocation for the year 2013</u> <u>Rs.</u>	<u>Expenditure as at 31 December 2013</u> <u>Rs.</u>	<u>Target to be completed</u> <u>(Km)</u>	<u>Completed length</u> <u>(Km)</u>
01. Routing maintenance	1,835,000,000	2,701,633,680	13,204.0	13,204.0
02. Continuation works	1,000,000,000			
03. Periodic maintenance	2,505,000,000	1,436,356,316		
Asphalt concrete overly			9.0	7.6
Sand sealing works				
Chip sealing works			700.0	595.0
Crack sealing works				
04. Structure improvement	760,000,000			
05. Maintenance of lights, signal lights, road markings and installation of road furniture	780,000,000	975,408,354		
06. Emergency works	600,000,000			
07. Operation and maintenance of ferries	20,000,000			
Total	<u>7,500,000,000</u>	<u>5,113,398,350</u>		

} Details not made available

### **3.4 Management inefficiency**

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Although a computer accounting package had been implemented by spending Rs. 113,097 and Rs. 12,000 had been paid as service charges, accounts had been prepared manually and presented for audit.

### **3.5 Contract Administration**

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Following observations are made.

- (i) As per the Schedule 01 and Paragraph No.17 of Appendix in the Finance Agreement entered into between Democratic Socialist Republic of Sri Lanka and International Development Association on 29 April 2011, the World Bank funds are to be used only for road maintenance works. However, at test examination revealed that World Bank funds had been utilized for capital works and road development works without obtaining approval from the World Bank.
  
- (ii) Substantial completion certificates of Veyangoda - Ruwanwella road and Edmand road and Bandaranayaka road of Galle had been issued by the RDA on 23 December 2013 and 24 December 2013 respectively, though the balance works of the above contracts had not been completed up to 04 April 2014.

### **3.6 Human Resource Management**

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Contrary to the letter dated 09 August 2011 of the Department of Management Services, qualified officers had not been recruited for the post of Accountant and Management Assistance of the RMTF.

### **3.7 Utilization of Vehicles**

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Following observations were made.

- (i) Contrary to the Public Administration Circular No.22/99 dated 08 October 1999, the RMTF had obtained 3 vehicles on hire basis from a private owner and annual payment of Rs.2,137,367 had been made as vehicle rental for the year under review. The procurement procedure had not been followed by the RMTF in this regard.
  
- (ii) Even though the RMTF had hired and used 3 vehicles, there was no particular officer for responsible of administration of those vehicles.



- (iii) Although the respective driver should be prepared the daily running charts of the vehicle and inspect by the administrative officer, the officer travelled in the vehicle had prepared the running charts for the period from 08 January 2013 to 10 June 2013 and signed himself contrary to the instruction in FR 1645.

#### **4. Corporate Plan and Action Plan**

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An action plan and a corporate plan had not been prepared in terms of paragraph 5 of the Public Enterprises Circular No PED/12 of 02 June 2003.

#### **5. Systems and Control**

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Deficiencies observed during the cause of audit were brought to the notice of the Board of Trustees from time to time. Special attention is needed in respect of the following areas of control.

- (a) Utilization of Vehicle
- (b) Operation of the Trust Fund
- (c) Maintenance of Accounting Records