

## **Road Maintenance Trust Fund (RMTF) - 2014**

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The audit of financial statements of the Road Maintenance Trust Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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.

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

The Road Maintenance Trust Fund had been established and under the Trust Ordinance by a Deed of Trust signed on 09 December 2005 with the approval of the Cabinet of Ministers. Initially, it was expected to provide funds for the roads maintained by the Road Development Authority through Road Maintenance Trust Fund and eventually the roads maintained by the Ministry of Provincial Councils and Local Government is also included therein. Therefore, the current main beneficiary of the Road Maintenance Trust Fund is the Road Development Authority which responsible for maintenance of Class A and B roads. The Road Maintenance Trust Fund is managed by the Board of Trustees. Funding for the Road Maintenance Trust Fund is being arranged through the Annual Budget. Initially International Development Association had agreed to provide US\$ 10.5 million equivalent to Rs.1,365 million for the period from 2012 to September 2014 through Road Sector Assistant Project. Out of that, US\$ 10 million equivalent to Rs.1,300 million was allocated to finance periodic maintenance purposes and US\$ 0.5 million equivalent to Rs 65 million was allocated to meet recurrent cost of the Trust Fund.

### **1.3 The Trust Fund**

#### **Objectives**

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**

According to Section 7 of the Deed of Trust, the beneficiaries under this Trust shall be the Ministry of Highways and Investment Promotion, Road Development Authority, Ministry of Provincial Council 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 Responsibility of the Management for the Financial Statement**

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 Basis for Qualified Audit Opinion**

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

### **2. Financial Statements**

#### **2.1 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 2014 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 Deficiency**

Investments on Treasury Bill valued at Rs.227,106 and interest amounting Rs.73,046 thereon had been understated and shown in the financial statements as at 31 December 2014 , due to calculation errors.

### **2.2.2 Non - Compliance with Laws, Rules and Regulations**

The following non -compliance with laws, rules, regulations etc were observed.

<b><u>Reference to Laws, Rules, Regulations etc.</u></b>	<b><u>Non compliance</u></b>
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| <p>(a) Public Finance Circular No. PF/423 of 22 December 2006</p> <p>(i) Section 4</p> <p>(ii) Section 4.3</p> | <p>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.</p> <p>Annual performance report had not been presented along with the financial statements.</p>                             |
| <p>(b) Public Enterprises Circular No. PED/12 of 02 June 2003</p> <p>(i) Paragraph 5</p>                       | <p>A comprehensive overall plan to cover the entire period highlighting the anticipated financial and physical targets monthly, quarterly, and annually etc. should be prepared to ensure successful implementation of the Fund within the specific period. However, such a plan had not been prepared and implemented.</p>  |
| <p>(c) The Deed of Trust</p> <p>(i) Section 4</p> <p>(ii) Section 19</p>                                       | <p>The expected objectives stipulated in the Section 4 of the Deed of Trust to be met out of the contribution of the Government was Rs. 3,725.4 million, had not been achieved.</p> <p>The functions of the Trust Fund should be reviewed after 3 years from the commencement of the Trust Fund, to assess the effectiveness in providing sustainable road maintenance financing and examine the ways of improving the operations of the</p> |

Trust Fund. Although the Trust had been operated with effect from 01 January 2006, the Board of Management of the Trust Fund had not reviewed financial and physical performance of the Trust Fund.

- (d) Paragraph 4 of the Cabinet decision dated 26 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 is required to be credited to the Trust Fund. Due to failure of implementation of this proposal expected outcome could not be achieved.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Funds utilized during the year 2014		Funds utilized up to 31 December 2014	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Donor Agency	10.5	1,365	6.69	870.22	8.34	1,083.78
GOSL	-	-	-	3,715.43	182.31	23,700.16
	<u>10.5</u>	<u>1,365</u>	<u>6.69</u>	<u>4,585.65</u>	<u>190.65</u>	<u>24,789.94</u>

#### 3.2 Physical Progress

The Road Maintenance Trust Fund had carried out maintenance works of several sections of 10 national roads in addition to provide funds to the Road Development Authority for roads maintenance purposes. According to the progress reports, maintenance works of 08 national roads with the length of 43.08 kilometres initiated in 2013 had been completed as at 31 December 2014. Further, maintenance works of 02 national roads with the length of 10.6 kilometres is being carried out throughout the year under review.

#### 3.3 Contract Administration

The following observations are made.

- (a) In accordance with Section 2.14.1 of National Procurement Guidelines of 2006, the Cabinet approval should be obtained for the contracts valued at

Rs.500 million or more. However, it was observed that the contract of overlaying and maintenance works of Kandy-Mahiyangana-Padiyathalawa Road had been divided in to 3 packages at estimated costs of Rs.365.1 million, Rs.224 million and Rs.235.2 million and awarded all three contracts to the same contractor. Further, the Asphalt overlaying and maintenance works of Katugastota-Kurunegala-Puttalam Road had been divided into 3 packages at estimated costs of Rs.440.6 million, Rs.435.6 million and Rs.463 million and awarded to another contractor, contrary to the above requirement.

- (b) It was observed in audit that the Engineer's Estimates for the road maintenance work were not prepared realistically. Some of the instances observed are described below.
- (i) Construction of a drainage system had not been included in the Bill of Quantities prepared for the maintenance works of section from 45+500 kilometre to 54+000 kilometre of Katugastota-Kurunegala-Puttalam Road. However, a sum of Rs.25,275,724 had been paid under a variation order to construct a drainage system.
- (ii) It was observed that the rates for road maintenances works appeared in the bids offered by the contractors was varied significantly with Engineer's estimates. Therefore, the rates for 17 items of the bids accepted for the maintenance of the section of 15+000 kilometre to 20+000 kilometre of Kandy-Mahiyangana-Padiyathalawa Road was exceeded by 80 per cent than the Engineer's Estimate.

### **3.4 Matters in Contentious Nature**

The following observations are made.

- (a) Out of the allocation amounting to Rs 209,560,000 made during the year under review for road maintenance works of national roads in North Western Province, a sum of Rs.24,954,594 had been spent for other works which were not related to the Trust Fund.
- (b) According to the recommendation made by the Consultants appointed for the purpose of technical assistance for the Secretariat of the Trust Fund, action should be taken by the Trust Fund to conduct financial audits on road agencies as a sample basis and prepare its own budget for the management of the Trust Fund for the ensuring year and submit it to the Department of National Budget. However, action had not been taken by the Trust Fund to implement such proposals.