

## **Road Maintenance Trust Fund - 2012**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Comments on Financial Statements**

##### **1.2.1 Rendition of Financial Statements**

Although the annual financial statements should be submitted to the Auditor General on or before the end of April in the ensuing year as per Section 11 of the Deed of Trust, annual financial statements for the year under review had been submitted to the Auditor General on 21 June 2013 only.

##### **1.2.2 Accounting Policies**

Although office equipment valued at Rs. 1,186,594 had been received from the Road Sector Assistance Project to RMTF, the ownership had not been transferred and the value of assets had not been brought to accounts.

##### **1.2.3 Accounting Deficiencies**

Following observations are made.

- (a) RDA should open a specific rupee account in a commercial bank to receive funds from the RMTF for the identified maintenance programme under IDA financing. The RDA had not complied with the above requirement as per RMTF policies.
- (b) A reconciliation statement had not been prepared in relation to the Special (Dollar) Account maintained in the Central Bank.

- (c) Total expenditure of Rs.3,909,883 had been shown in the accounts whilst corresponding amount in the Treasury printout submitted was Rs.2,179,326 thus showing a difference of Rs.1,730,557.

#### **1.2.4 Non compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non compliance with Laws, Rules etc were observed in audit.

##### **Reference to Laws, Rules, Regulations etc.**      **Non compliance**

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| <p>(a) (i) Section 4 of the Public Finance Circular No. PE/423 of 22 December 2006</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<sup>th</sup> 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 and statement of changes of accumulated fund had not been presented along with the financial statements.</p> |
| <p>(b) Paragraph 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003</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) Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003</p>                         | <p>Although the audit committee should meet on a regular basis at least once in 3 months, it had not been met as required.</p>   |

## **2. Operating Review**

### **2.1 Performance**

The following observations are made.

- (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 technical auditors had been deployed and a sum of Rs. 496,152 had been paid as remuneration, the performance reports of technical audit had not been submitted to the Board of Trustees.
- (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<sup>st</sup> January 2006, the Board of Management of the Trust Fund had not reviewed financial and physical performance of the Trust Fund.
- (iii) According to the 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. No evidence was made available for audit whether the Fuel Cess Fund had been established according to the above Cabinet decision.
- (iv) A sum of Rs. 1,332 million had been released to the RDA for national road maintenance activities and out of this, Rs.111 million had been released to the RDA Southern Province. This amount had not been used for the national road maintenance activities and used for the rural road development activities which were belonging to the Pradeshiya Sabhas in Southern Province.

- (v) In terms of RMTF policies issued by the consultancy service, the Road Development Authority could be channeled through the Secretariat only. According to the financial statements submitted by RMTF, Rs. 1,332 million had been released through the RMTF to RDA in the first quarter of the year under review and a sum of Rs. 4,629 million released directly to the RDA by the Ministry of Ports and Highways violating the above policy requirement.
  
- (vi) Although the total allocation in the annual estimates for the year under review was Rs. 5,500 million, a sum of Rs.1,332 million only had been utilized through the Trust Fund for the year under review. The expected objectives of establishment of RMTF in terms of Section 4 of the Deed of Trust had not been achieved. Hence it was observed that the Fund had not been in operation as per RMTF policies.
  
- (vii) Although a sum of Rs. 74,717,634 had been spent for consultancy service of technical assistant to the establishment of RMTF Secretariat under Road Sector Assistant Project, their recommendations and policies had not been fully implemented.

## **2.2 Financial Review**

### **Financial Results**

According to the financial statements presented, the operations of the Trust Fund for the year ended 31 December 2012 had resulted in a net surplus of Rs. 340,985,888 as compared with the corresponding net surplus of Rs. 3,481,215 for the preceding year, thus indicating an improvement of Rs. 337,504,673 in the financial results.

The following summary shows the receipts, payments and net surplus for the year under review.

	<u>2012</u>	
	<u>Rs. Mn.</u>	<u>Rs. Mn.</u>
Receipts from Treasury	1,332	
Receipts from IDA	<u>339.8</u>	
Total receipts		1,671.8
Payments made to RDA	1,332	
Maintenance expenditure of RMTF	<u>4</u>	
Total payments		<u>(1,336)</u>
		335.8
Add: Interest on Treasury bills	5	
Exchange gain	<u>0.2</u>	<u>5.2</u>
Net surplus		<u>341</u>

### 2.3 Utilizations of Vehicles

Following observations are made.

- (i) The RMTF had obtained 3 vehicles on hire basis from the private sector for an annual payment of Rs.2,273,540 without complying with the instructions in the Public Administration Circular No 22/99 of 8 October 1999.
- (ii) There was no particular officer responsible for the use of vehicles and it was unable to examine in audit whether the performance of the vehicles was in a satisfactory level due to non availability of details of used vehicles.

### 3. Corporate Plan and Action Plan

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 for the implementation of the activities of the Trust Fund effectively.

**4. Systems and Controls**

Deficiencies observed during the course 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 vehicles
- (b) Operations of the Trust Fund
- (c) Internal control