

Road Maintenance Trust Fund (RMTF) - 2015

The audit of financial statements of the Road Maintenance Trust Fund for the year ended 31 December 2015 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. The funding arrangement for the Road Maintenance Trust Fund is being made through the Annual Budget of the Government of Sri Lanka. 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. Further, allocation of US\$ 5.45 million had been transferred from the Road Sector Assistance Project to continue road maintenance works under the Fund. According to the Letter dated 25 March 2015 of the Country Director of the World Bank, the finding arrangement for the Fund had been closed on 30 June 2015.

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 then Ministry of Highways and Investment Promotion, presently Ministry of Higher Education and Highways, Road Development Authority, Ministry of Provincial Council and Local Government, presently Ministry of Local Government Provincial Council 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 Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 2015 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

Interest received on investments in treasury bills amounting to Rs. 1.28 million had been set off against the expenditure of the Fund without recognizing as a separate source of income.

2.2.2 Non - Compliance with Laws, Rules and Regulations

The 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 as required by the Section 04 of the Public Finance Circular No. PF/423 of 22 December 2006 had not been prepared for the year under review. Further, the annual performance report required to be prepared according to the Section 4.3 of the said Circular had not been prepared and presented along with the financial statements.

3. Financial Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Sources	Allocation according to the Loan Agreement		<u>Amount utilized</u> during the year under review as at 31 December 2015			
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
Donor Agency	15.95	2,073.5	4.036	542.69	12.33	1,626.47
GOSL	-	-	-	4,259.80	-	14,456.73
Total	<u>15.95</u>	<u>2,073.5</u>	<u>4.036</u>	<u>4,802.49</u>	<u>12.33</u>	<u>16,083.20</u>

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. As a result out of total allocation US\$ 15.95 million, US\$ 12.33 million had only been utilized at the end of the period of the Fund.

3.2 Physical Progress

The Road Maintenance Trust Fund had carried out maintenance works of several sections of 12 National Roads in addition to provide funds to the Road Development Authority for road maintenance purposes. According to the progress reports, maintenance works of 12 National Roads with the length of 59.6 kilometres initiated in 2013 and 2014 had been carried out at a cost of Rs. 3,201.38 million as at 31 December 2015. The following further observations are made.

- (a) The functions of the Trust Fund should be reviewed after 3 years from the commencement of the Fund, to assess the effectiveness of the Trust Fund in providing sustainable road maintenance financing and to examine the ways of improving the operation of the Trust Fund. 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.
- (b) 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 according to the decision of the Cabinet of Ministers made on 26 October 2005. However, a proper procedure had not been adopted to implement the proposal even as at 31 December 2015.

3.3 Contract Administration

The following observations are made.

- (a) As a regular feature, the savings of costs estimated in the Bill of Quantities on road maintenance works were reported in the progress reports of the Trust Fund and it indicated that scope of the road maintenance works were not properly determined after surveying of ground situation. The details of savings of costs of road maintenance works carried out by the Trust Fund are given below.

<u>Name of the Road</u>	<u>Road Change</u>	<u>Costs Saved</u> Rs. million
Katugastota-Kurunegala-Putlam Road	38+400 kilometre – 45+500 kilometre	5.65
Katugastota-Kurunegala-Putlam Road	54+000 kilometre -62+330 kilometre	29.19
Peradeniya - Badulla - Chenkalady Road	03+100 kilometre to 09+000 kilometre	33.33
Peradeniya - Badulla - Chenkalady Road	09+000 kilometre - 13+700 kilometre	32.51
Katunayake - Veyangoda Road	0+000 kilometre - 4+000 kilometre	95.66
Katunayake - Veyangoda Road	4+000 kilometre - 9+500 kilometre	3.21

- (b) It was observed that the contract for Asphalt overlaying and maintenance of Katunayaka - Veyangoda Road had been divided in to 02 packages and awarded to the same contractor at an estimated cost of 313.40 million and Rs.267.60 million on 16 December 2014, contrary to the paragraph 2.14.1 of Government Procurement Guidelines of 2006. Further, the approval of the Cabinet of Ministers had not been obtained thereon.

3.4 Matters in Contentious Nature

Although the rates under 14 items of the bills presented by the contractors engaged on maintenance of the road section from 3.1 kilometre to 09 kilometre of the Peradeniya - Badulla - Chenkallady Road were exceeded the rates applied in the Engineer's Estimate ranging from 100 per cent – 997 per cent. Further, the approval of the Technical Evaluation Committee had not been obtained thereon.

3.5 Extraneous Activities

The following observations are made.

- (a) Eventhough the funding arrangements for the Fund was closed on 30 June 2015, a sum of Rs 3.02 million had been spent as course fees and incidental allowances for a foreign training held at the University of Birmingham in United Kingdom in July 2015.
- (b) As required by the feasibility study report of the Road Sector Assistant Project, the Secretariat of the Fund 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. Further, it was observed that the performance reports of technical audits had not been submitted to the Board of Trustees of the Fund.
- (c) A sum of Rs. 38.23 million had been spent during the year under review for road maintenance works of 38 provincial roads in the Central Province, out of Rs.310.36 million allocated for maintenance of national roads in the Central Province.
- (d) Although a sum of Rs. 81.55 million had been spent for consultancy services to establish a Secretariat for Road Maintenance Trust Fund and determine the policies of road maintenance purposes, the recommendations of road maintenance policies introduced by the Consultant had not been fully implemented. However, the Consultancy Agreement has been terminated on 11 November 2014.

3.6 Issues on Financial Control

The transactions of the Fund during the year under review had not been subjected to the internal audit of the Line Ministry, as required by the FR 134(3).