

OPERATIONAL RISKS OF ROADS AND HIGHWAYS DEPARTMENT AND MEASURES IN ROADS AND HIGHWAYS DEPARTMENT

A. Management information system

1. The computerized system, the central management systems (CMS), is in place and now mandate for all divisional offices to use for project and financial management. The system is connected via internet. DFID has provided support to its set up and now RHD has its own resources and officers in charge to maintain and update the system.

2. All division offices is connected to HQ's accounting systems and without going through the CMS and HQ's verification, the payment will not be endorsed with designated check number recorded in the system. This provides a mechanism to control commitment and liability against budget. The backlog of major unpaid contracts has been eliminated. There is still marginal amount remained unpaid in the record from time to time, which is mostly due to the delay in the fund release by the government.

3. While the systems could be enhanced further, e.g., security system, system accreditation, the use of CMS is now enforced in all RHD division offices. All information is available and accessible from any computers, and project progress and payment details are all available in the website to the public.

4. The use of CMS could make RHD business more efficient if the following aspects, which are beyond CMS, are improved.

B. Financial management and control system

5. The weakest area is internal control mechanism. While CMS functions and it is used by all division offices, the key issue is to ensure the payment made is matched with the works undertaken. RHD has established a performance audit committee chaired by RHD, which needs to be periodically held and actions need to be undertaken to issues identified. RHD has also introduced a peer quality-check system where one division engineers undertake quality check on another division's works. The quality report is prepared and submitted to the Chief Engineer. Under the proposed project, third-party quality check will be undertaken for selected maintenance works. Quality assurance system will be strengthened by provision of laboratory equipment by the proposed loan and capacity development support by the proposed TA for institutional development of RHD. These will also help establish reliable cost estimate and payment.

6. Institutional weakness in RHD stems from communications gaps between technical officers and the DAA officers. Also, the weak budget enforcement, together with the country's disaster-proneness and the delay in the fund release, makes the expenditure on the emergency basis and the planned budget change frequently. Capacity development component of the TA Loan 2688 Subregional Transport Project Preparatory Facility will provide support to strengthen the internal control capacity, including both technical and financial aspects of RHD's maintenance and development works.

C. Transparency and competitiveness of procurement

7. RHD's procurement capacity is being improved under the World Bank-supported Public Procurement Reform Project II (PPRP-II). A recent World Bank review provides that the PPRP-II

is progressing well with positive contributions towards improving transparency and competitiveness of procurement. A pilot program of electric government procurement has been successfully completed and is now set to be rolled out at a much wider scale in RHD.

8. For the proposed Project, the following actions will be made to further enhance good governance during procurement: (i) design consultants selected by ADB and engaged by RHD under the TA loan 2688 will provide procurement assistance; (ii) a procurement advisor will be engaged by ADB and in place during procurement processes; (iii) ADB will closely monitor procurement activities on the daily basis; and (iv) the TA consultant will undertake procurement review.

D. Accountable priorities for maintenance spending and policy review/monitoring

9. As discussed in the maintenance financing strategy, a mismatch between expenditure and the funding requirement is observed for routine and periodic maintenance. The key issue is to ensure appropriate maintenance prioritization and budget allocation, and the expenditure as planned, in parallel with the increase to the budget. At the RHD level, actual works undertaken should be recorded in the relevant budget/expenditure headings. This is the first step towards enabling monitoring expenditure and results. At the same time, sufficient contingency budget would be secured to address emergency works to provide certain flexibility for emergency works so that such works could be appropriately undertaken without hampering routine and periodic maintenance works. Such contingency budget will also help streamline the fund release.

10. The TA consultant for RHD institutional development is provided to (i) prepare annual budget in line with the maintenance financing strategy, using HDM; (ii) ensure appropriate maintenance prioritization and budget allocation, and the expenditure as planned; and (iii) introduce technologies for optimal maintenance. MOC will undertake a review of the policy implementation progress, including sector efficiency improvement as well as budget expenditure as planned. The latter will monitor implementation of the agreed maintenance financing strategy.