

WAYS OF DISBURSING FUNDS TO DIFFERENT ROAD AGENCIES

(Prepared by Ian G. Heggie, revised February 1998)

This Annex summarizes the three main ways of disbursing funds to the different road agencies entitled to receive money from the road fund, namely by: (i) disbursing funds directly to the road agencies on a regular basis and then auditing use of the funds ex post, (ii) issuing approval for the work to be done and then reimbursing the road agency after the work has been completed; or (iii) paying the contractors directly, but only after certification that the work has been completed according to specification.

1. Disbursing Funds Directly to Road Agencies

This method works best when there is good governance, competent road agencies, and a highly decentralized system of road administration. The basic principle is that the road fund provides funds to road agencies, if they agree to provide all the information and cooperation necessary to enable the road fund to review and audit the correct application of these funds, usually against an approved annual expenditure program. Staff from the road fund visit each road agency to review their internal financial systems (including accounting and related financial systems), to confirm that they are being operated correctly and in conformity with the various policies published by the road fund. Technical and financial audits are carried out on a regular basis, and procedural audits are carried out every few years to ensure the road agency is complying with the road fund's policies with regard to the custody, recording and utilization of road fund resources. New Zealand operates this type of system and channels funds to Transit New Zealand on a back-to-back basis (i.e., as Transit pays for work, Transfund reimburses them), while local authorities are reimbursed on the basis of monthly claims. If a local authority does not comply with the procedures laid down by Transfund, it has to repay the funding received.

2. Reimbursing Road Agencies After Work Has Been Completed

This system operates like a line of credit. The starting point is similar to option one. The road fund first of all defines the systems and procedures to be followed by each road agency as a condition of being able to receive money from the road fund. This may involve having an annual audit carried out by independent auditors, covering both financial compliance and internal control procedures. The audit is thus more comprehensive than the usual financial audit, in that it also covers the internal control procedures used by the road agency. Staff from the road fund may check these procedures on an ad hoc basis, and may also carry out field inspections of work financed through the road fund. Each year there is an approved expenditure plan and the road agency goes ahead with implementation. Once an item of work has been completed, the road agency pays the contractor and submits a voucher for reimbursement to the road fund. In the case of force account work, it submits a claim for bought-out plant and materials, together with in-house staff costs. The road fund certifies the payment and then transfers the necessary funds to the road agency. The need for certification prior to payment gives the road fund additional control over the payment process. This system is used by the US Highway Trust Fund.

3. Paying Contractors Directly

The third method involves more oversight by the road fund. The method starts with the same approved expenditure program but, instead of transferring funds to the road agencies (as per both other previous options), the road fund pays contractors directly. Payment is made only after certification that the work has been actually carried out and completed according to specification. The procedure works best when the work is done under contract, but can also be applied to force account work. Certification is usually done by a firm of local consultants. In practice, the contractor usually submits monthly statements of work completed (except for very small contracts) and, within a fixed period of time, the consultant certifies the work for payment. These procedures are widely used in Africa for both force account work (Benin), work undertaken by state contractors (Mozambique) and private sector contractors (Zambia). Attachment 1 provides an example of the forms used to certify work for payment in Mozambique.

