

## **Base Line Project Phase III- 2019**

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The audit of the financial statements of the Base Line Road Project – Phase III for the year ended 31 December 2019 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. This Project is implemented under the decision made at the meeting of cabinet of Ministers held on 19 November 2009. My comments and observations which I consider should be reported to Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

Then Ministry of Highways and Road Development and Petroleum Resources Development, presently Ministry of Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project is to minimize the road traffic by constructing a new road with 860 meter length from Kirulapona to Colombo- Horana Road. The cost on land acquisition was estimated as Rs.3,500 million whilst cost of civil works for the Project was estimated as Rs.7,041.29 million.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 02 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and Those Charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Projects ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **1.6 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Accounting Deficiencies

The following observations are made.

| <b>Accounting Deficiencies</b>  | <b>Amount</b>     | <b>Impacts</b>   | <b>Responses of the Management</b>  | <b>Auditor's Recommendations</b>  |
|---|-------------------|--|---|---|
| -----   | -----             | -----  | -----   | -----   |
|   | <b>Rs million</b> |  |   |   |
| (a) Provision for the interest on compensation payable amounting to Rs.7.57 million had not been made in the financial statements for the lot No. 31 for the year under review. As a result, the accrued interest of Rs.211.45 million shown in the financial statements had been understated by Rs.7.57 million. | 7.57              | Understatements of the liabilities.                                | Agreed, this omission has been rectified now.   | Payable balances at the end of the year under review need to be correctly brought to account.     |
| (b) Differences of Rs.7.37 million had been observed between the value of compensation on land acquisition shown in the financial statements and the value shown in the schedule of compensation submitted to the audit.  | 7.37              | Incorrect information may be included in the financial statements. | Agreed, this is due to oversight, WHT paid amount has been transferred to interest on compensation account now. | Financial Statement schedules should be agreed with the figure shown in the Financial Statements. |

### 3. Contract Administration

The following observations are made.

| No  | Audit Issues  | Impacts   | Responses of the Management   | Auditor's Recommendations  |
|-----|---|---|---|--|
|     |   | -----   | -----   | -----  |
| (a) | <p>The Base Line Road Project Phase III had been initially commenced in 2004 as per the approval of Cabinet of Ministers on 12 August 2004 to construct 7.42 km length of road from Kirulapone to Maliban Junction at Rathmalana. However, as per the approval of Cabinet of Ministers on 21 May 2009, the scope of work had been reduced to 0.86 km from Kirulapone high level road to Colombo Horana road. However, the civil construction work of the above Project had not been commenced even as at 31 December 2019. Further, it was observed that the funding arrangements required for the civil construction works had not been still made by the Project.</p> | <p>Expected benefits will not be received to the stakeholders and possible increase of the cost of the Project.</p> | <p>Fund request for the civil work has been forwarded to ERD and without acquiring 75% of the land in the project area, ERD unable to precede next step. Due to those reasons, commencing the procurement of selecting the contractor for Civil Work is not possible.</p> | <p>Steps should be taken to accelerate the activities of the of the Project.</p> |
| (b) | <p>Out of compensation aggregating Rs.699.26 million for 15 land owners, compensation aggregating Rs.230 million for 3 land owners had only been settled during the year under review. As a results, a sum of Rs.469.3 million of compensations pertaining to 12 land owners had been remained unsettled even as at 31 December 2019, due to lack of funding facilities to the Project. In addition to that the interest of Rs.211.45 million at 7 per cent had been provided in the financial statements as at 31 December 2019, due to delay in settlement of above compensation.</p>   | <p>Possibility to increase interest on delays in settlement of claims on compensation.</p>                          | <p>Agreed. Due to limited budget of The government, sufficient funds for the land acquisition not received on time to the project. Due to delaying the payment additional 7% interest is payable from 2015 January.</p>   | <p>Need to expedite the Implementation process of land acquisition.</p>          |

(c) Eventhough 200 plots of land required to be acquired based on revised scope of works, Project had acquired only 31 plots of land representing 15 per cent and compensation of Rs.675 million had been paid as at 31 December 2019. Possible delays in commencement of the Base Line Road Project Total Project area cleared as at 31<sup>st</sup> December 2019 is 31% and as at 30<sup>th</sup> June 2020 It was 39% out of 200 Plots. The overall progress of the land acquisition procedure as at 30<sup>th</sup> June 2020 is 79%. Fund constraint for the land acquisition has imposed significant impact to the progress of the project. Considering the overall plan, achievable targets should be decided to set and the allocation should be requested accordingly.