

Base Line Road Project-Phase III - 2014

The audit of financial statements of the Base Line Road Project-Phase III for the year ended 31 December 2014 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 taken at the meeting of Cabinet of Ministers held on 19 November 2009.

1.2 Implementation, Objectives, Funding and Duration of the Project

The Ministry of Highways and Investment Promotion is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objective of the Project was to minimize the road traffic by constructing a new road from Kirulapona to connect Colombo-Horana Road. The estimated cost of the Project was Rs.719 million and entire cost of the Project is expected to be financed by the Government of Sri Lanka. The activities of the Project were commenced in 2009.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles 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

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my

opinion. The examination also included such tests as deemed necessary to assess the following;

- a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over the Project management and the reliability of books, records, etc. relating to the operations of the Project,
- b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project,
- c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project,
- d) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- e) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles, and
- f) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

1.5 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

So far as appears from my examination and to the best of information and according to the explanations given to me I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

2.2 Accounting Policies

Accounting policies applied by the Project had not been disclosed in the financial statements.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Allocations made in the revised Budget Estimate	Funds utilization	
		during the year under review	up to 31 December 2014
	Rs. million	Rs. million	Rs. million
GOSL	97.00	97.0	428.6
	<u>97.00</u>	<u>97.0</u>	<u>428.6</u>

3.2 Physical Progress

The following observations are made.

- (a) Eventhough the activities of the Project had been commenced in 2009, as the phase III of the Project implemented for improvement of the Baseline Road, no progress of the construction of the new road from Kirulapona to Dutugamunu Junction of Colombo-Horana Road had been shown since 31 December 2012. The reason observed for the delay in construction of the Road was the problems in land acquisition. Further, Project had not prepared a proper plan to acquire the lands and implement the construction works.
- (a) Even though it was expected to acquire 143 plots of land of 2.728 hectares in extent, since 2009, only 10 plots of land of 0.3447 hectares in extent had been acquired by the Project as at 31 December 2014. As per the reply of the Secretary it was stated that the major delay was due to the protests from the people affected.

3.3 Contract Administration

According to the information received, the Road Development Authority had paid a sum of Rs.1,175,300 to the State Engineering Cooperation in 2008 to design of a housing scheme for the people displaced due to construction of the new road. However, the design works had not been completed even as at 31 December 2014. The need of such a housing scheme could not be determined in audit as the scope of the Project was shorted due to curtailment of the road construction works up to Dutugamunu Junction at Colombo-Horana Road.