

## **Base Line Road Project Phase III - 2021**

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The audit of the financial statements of the Base Line Road Project – Phase III for the year ended 31 December 2021 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**

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According to the information of the Project, the 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 congestion by constructing a new road with 860 meters Kirulapona to Colombo – Horana Road. The road will be constructed with 3 lane dual carriageway with raised foot walk on either side and with the center median. This Project is implemented under the decision made at the meeting of Cabinet of Ministers held on 19 November 2009. The tentative cost for the Project was estimated as Rs.4,860 million for the land acquisition and Rs.5,250 million for the cost of construction. However, civil construction activities of the Project had not been commenced and the funds required for the construction had not been arranged even as at 30 June 2022.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Qualified Opinion**

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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**

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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.

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

## 1.6 Auditor's Responsibilities for the audit of the Financial Statements

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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:

- (a) 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.
- (b) 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.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (d) 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

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### 2.1 Accounting Deficiencies

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<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs. Million</b>	<b>Management Response</b>	<b>Recommendation</b>
Interest payable amounting to Rs.28.19 million relating to the compensation of Rs.57.64 million had not been recorded in the statement of financial position of the Project as at 31 December 2021.	28.19	Agreed with this comment. Appropriate action has been taken to rectify this omission now.	Need to identify and record interest of Rs. 28.19 million relating to the compensation payable of Rs.57.64 million already shown in the financial statement as at 31 December 2021.

## 2.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Although the total road length of 7.42 km had been reduced by 6.56 km to 0.86 km length in the year 2009 by considering cost of the Project and view of it's important for ease traffic congestion in Colombo area, the road construction activities of the Project had not been commenced even after laps of 12 years as at 31 December 2021. Further, it was observed that, a sum of Rs.3,323 million and Rs.30 million had been incurred by the Government of Sri Lanka for the cost of Land acquisition and the cost of PMU respectively as at 31 December 2021.	Agreed. Due to involvement of various institutions and legal requirements it has taken considerable time to complete the land acquisition works. Funding is the main constraint for the delay of land acquisition payment. Therefore, civil works activities could not be commenced.	Action needs to be taken to accelerate the road construction activities of the Project.
(b)	According to the information, the Project had obtained GOSL allocation amounting to Rs.625 million for the commencement of construction works during the year 2021. However, no proper action had been taken by the Project to award the contract at the early stage. The invitation to bids had been called on 25 October 2021 and bids were opened until 02 December 2021. The contractor for the civil construction works had not been selected even as at 31 May 2022. As a result, out of initial allocation, allocation amounting to Rs. 187 million had been transferred to other Project and balance allocation Rs.438 million had been remained in the Project without utilizing due to delay in procurement activities of the Project.	We had planned to carry out Civil Works constructions assuming the required impress for land acquisition work would be received in first two quarters of the year out of the annual allocation of Rs.1074 million. However, it was delayed and only in October 2021 we received Rs.904.6 million for land acquisition payments. Accordingly, planned procurement civil construction works had to be delayed toward the end of the year.	Considering the overall plan, achievable targets should be decided to set and the allocation should be requested accordingly.

### 3. Issues relating to the Land Acquisition

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
<p>Although 200 plots of land required to be acquired based on revised scope of works and Section 38(a) had been issued for 193 plots of land in 2015, but the Project had acquired only 98 plots of land representing 49 per cent and compensation of Rs. 2,534 million had been paid as at 31 December 2021. Further, it was observed that, compensation amounting to Rs.838 million including interest Rs.775 million was remained outstanding even as at 31 December 2021 due to lack of funding facilities of the Project.</p>	<p>We have paid for 68 lots, and another 30 lots have been acquired as roads and reservations. Accordingly, 98 lots have been acquired and cleared by now, this is representing 67% of total land area of the Project.</p>	<p>Action needs to be taken to accelerate the land acquisition activities of the Project.</p>