

Ecosystem Conservation and Management Project (ESCAMP) - 2017

The audit of financial statements of the Ecosystem Conservation and Management Project for the year ended 31 December 2017 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 read in conjunction with Article Section 2 b (3) of Loan Agreement No. 5792-LK dated 05 September 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, the Ministry of Mahaweli Development and Environment is the Executing Agency and Department of Forest Conservation and Department of Wild life Conservation are the Implementation Agencies of the Project. The objective of the Project is to improve the status of the management of ecosystems in selected locations in Sri Lanka for the conservation purpose and benefits of the community. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 45 million equivalent to Rs.6,504.75 million and the entire amount was agreed to be financed by International Development Association. The Project had commenced its activities on 01 December 2016 and scheduled to be completed by 30 June 2021.

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 Sri Lanka Accounting Standards and for such internal control as the management determines as 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 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 and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (h) Whether the financial covenants laid down in the Loan Agreement had been complied with.

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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purpose for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,

- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the application for reimbursement in accordance with requirements specified in the Loan Agreement, and
- (e) the financial covenants laid down in the Loan Agreement had been complied with.

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 the utilization of funds as at 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review		Funds utilized as at 31 December 2017	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	45.00	6,504.75	-	-	1.32	199.38
GOSL	-	-	-	-	-	3.69
Total	<u>45.00</u>	<u>6,504.75</u>	=	=	=	<u>203.07</u>

It was observed that the allocations to implement the activities of the Project had not been made in the Budget Estimate of 2017 under the Ministry of Mahaweli Development and Environment. However, a sum of Rs. 3.8 million had been transferred to carry out the activities of the Project from the allocation made for the other Programmes of the Line Ministry.

3.2 **Physical Progress**

According to the information received, the Project had not prepared a comprehensive Implementation Plan covering the entire period of the Project. Further, the activities of the Project scheduled to be commenced on 26 July 2016 as per the Project Appraisal Report, had been commenced only on 01 December 2016.

3.3 **Extraneous Expenditure**

A sum of Rs.5.55 million spent by the Project for hosting of a session of the Asia Pacific Forestry Commission held in Colombo from 23 to 27 October 2017 was not directly related to achieve the objectives of the Project.

3.4 Issues on Financial Control

The following observations are made.

- (a) It was observed that an Action Plan of the Project had been prepared to implement the activities of the Project from 01 January 2018 and therefore, the activities implemented during the year under review had not been included therein. Further, a proper Procurement Plan had not been prepared for the year under review.
- (b) The inventory records had not been maintained in updated manner and the physical verification on fixed assets for the year under review had not been carried out.
- (c) Action had not been taken by the Project to recruit an Internal Auditor as required by the Management Audit Circular No. 02/2016 of 10 June 2016 of the Department of Management Audit.