

Ecosystem Conservation and Management - 2020

The audit of financial statements of the Ecosystem Conservation and Management Project for the year ended 31 December 2020 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 Section II (B) (3) of the Loan Agreement No.5792-LK dated 05 September 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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

According to the Loan Agreement, the Ministry of Mahaweli Development and Environment is the Executing Agency and Department of Forest Conservation and Department of Wildlife Conservation are the Implementing Agencies of the Project.

The objectives of the Project are to improve the status of the management of ecosystems in selected location in Sri Lanka for the conservation purpose and benefits of the community.

The activities of the Project are implemented under four main components namely pilot landscape planning and management, sustainable use of natural resources and human-elephant co-existence, protected areas management and institutional capacity and project management.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 45 million equivalent to Rs.7,827.3 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. However, the date of completion of the activities of the Project had been extended up to 30 June 2022.

1.3 Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka 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 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

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 scepticism 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 internal control of the Project.
- 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

Accounting Deficiency / Audit Issue	Amount Rs.	Response of the Management	Auditor's Recommendations
As per the financial statements of the project, total project expenditure for the year under review shown as Rs.1,157,591,574 whereas corresponding expenditure shown as Rs.1,128,947,497 in the financial statements of the Ministry of Wildlife and Conservation. However reconciliation had not been prepared to identify the differences and submitted to audit.	28,644,077	In the final accounts of the Ministry of Wildlife and Forest Conservation, the amount mentioned as the expenditure of the project for the year 2020 is Rs. 1,128,947,497 Withdrawal Applications sent to the Ministry of Finance for reimbursement and settlement of advances include expenses incurred for the year 2020, expenses incurred in December 2019 and Settlements of advances received in 2019. Therefore, which is the expenditure calculated by Ministry, is not the same as the actual expenditure incurred by project during the year.	Should Compare and reconcile accordingly.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
2.1.1. of Project Operations manual	Even though the steering committee meeting should be hold quarterly, there were no such committee meetings were held to take necessary action on review the progress of	The Project was unable held any of the single project steering committee meeting in the year 2020 under the unavoidable Circumstances. The Secretary to the relevant Ministry is the chairperson	The relevant meetings should be conduct on time and should review project performance according to the objectives and time target.

project for the year of the Steering Committee. 2020. Consequently, there were delays in submitting nominations because of Re-appointment of the Committee due to the transfer of three Secretaries to the Ministries who are to chair the Steering Committee from time to time during the relevant year and many of the previously nominated members of the Committee had transferred or promoted to other posts during this period. Furthermore, the "COVID-19" condition is also a factor.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2020		Delay/ Audit Issue	Response of the Management	Auditor's Recommendations
		Expected physical performance Percentage	Performance achieved Percentage			
(i) 2(a)	Activities planned by Department of Wildlife Conservation	100	5	Lower level of progress	The Department of Wildlife Conservation (DWC) has planned to launch several livelihood development activities and water supply for agriculture, under 2(a) component, for communities living around Yala and Udawalawe parks. However, due to COVID-19 pandemic, some areas were closed and travel restrictions were also imposed during the year 2020.	Relevant activities should be implemented accordingly.

(ii)	3 (c)	Activities planned by the Department of Forest Conservation	100	10	Lower level of progress.	Under sub-component 3(c), provisions are provided for departments to conduct field trainings. Even though the Forest Department has planned to spend funds for varies field level trainings, it was not possible to conduct trainings and spend funds as per plans due to COVID-19 pandemic.	Implement the activities accordingly.
(iii)	2 (b)	Human elephant co-existence for livelihood protection	100	55	Overall physical progress was at lower level.	There were plans to construct village elephant fencing and seasonal paddy-field fencing in Kurunagala and Anuradhapura districts during the year 2020, under the 2b sub-component. However, officers were compelled to stop the program works temporarily in both districts due to the COVID-19 pandemic. Even though the required materials and equipment were purchased, community participation was not possible as field visits were banned by health authorities (PHIs) and Grama Niladhiri's in respective areas. This was the main difficulty to achieve the targets of the program. In addition, the circular issued by treasury had a big impact	Implement the activities accordingly.

						on the progress of same situation was affected to the 3 (b) and the treasury circular issued on 08 July 2020 hampered the progress of implementation of 3 major constructions of Department of Wildlife Conservation and Forest Department worth Rs.120 million. These were cleared by the cabinet paper on 28 December 2020 and no financial or physical progress could be achieved since July, 2020.	
(iv)	3 (b)	Nature- based tourism in Protected areas.	100	52	Overall physical progress was at lower level.	- Do -	Implement activities accordingly
(v)		The average physical progress value of planned activities under the Department of wildlife conservation	100	47	Lower level of progress	of All development activities operated by both departments are located within selected villages surrounding their protected areas or parks. The current activities were planned during 2019 and 2020/2021 and the performances are also in different scales. In this regard, 50 program activities were temporarily suspended due to the circular (dated 08 July 2020) issued by the Treasury. Subsequent approval was	Implement the activities accordingly

					granted only on 28.12.2020 by the Cabinet to recommence development activities. This stoppage was long as six months and it was adversely affected the progress.	
(vi)	The average physical progress value of planned activities under the Department of forest conservation	100	59	Lower level of progress	- Do -	- Do -
(vii)	Overall Physical Progress of the project	100	65	Lower level of progress	The current Program Implementation Plan (PIP) consists of activities of two departments and PMU activities from 2019. Since completed works in 2017 and 2018 were not included in the current PIP, the progress is shown low as 65 percent. As indicated in 3.1.iv, the treasury circular of 08 July 2020 was the main reason for six month delay and low physical progress.	Implement the activities according to the Project Implementation Plan.
					Arrangements have been made to catch up the delay and improved progress could be forwarded in due course.	

3.2 Contract Administration

Audit Issue

The value of the project loan agreement is USD 45 million and by 2020 it has come down to USD 35 million and USD 53.8 million had been allocated for 544 project activities in the procurement plan prepared for the project. It was observed that a non-realistic procurement plan had been prepared which would exceed the total project cost. At the end of the year under review, under this plan 299 project activities worth Rs. 27 million had been cancelled.

Accordingly, it was observed that 54.96 per cent of the total plan had been cancelled due to poor management in the preparation and implementation of the project planning plans.

Due to this, the quantity and quality of the expected results of the project could not be satisfied according to the audit.

Response of the Management

The Procurement Plan of ESCAMP operates with the on-line system call 'STEP' which was introduced by the World Bank. The development activities with the estimated costs forward by two implementing agencies (FD and DWC) and PMU feed in to the STEP system. There are no restrictions or ceilings to enter the costs and sometimes it could go beyond the total ESCAMP budget of USD 35 million. However, cost of completed activities and on-going construction will not exceed USD 35 million budget.

All activities included in the Procurement Plan based on the information provided by two departments. But these entries could be changed according to the changes of priorities of implementing agencies. The changes made in this system was high in the past. But the situation was controlled and only a few changes occur now compared to the past.

Auditor's Recommendation

Procurements should identified correctly and review time to time.

3.3 Matters in Contentious Nature

Audit Issue

During the year under review, the project office was established in a building belonging to the State Timber Corporation without a valid agreement.

Response of the Management

There were some discrepancies between actual area utilise by PMU in the 'Sampathpaya' which is owned by the State Timber Corporation (STC) and area indicated in the agreement with STC. This discrepancy was corrected by the ESCAMP's Internal Auditor with the fresh measurements and requested to correct the current agreement.

Accordingly, letters were sent to two other institutions (non ESCAMP but located in the same premises) requesting relevant information and awaiting responses. The negotiations continue with STC and payments will be made after finalization of new agreement with correct measurements and information.

Auditor's Recommendation

Should enter in to the agreement

3.4 Issues Related to Human Resources Management

Audit Issue

As at 31 December 2020, there were 06 vacancies for 05 approved staff posts in the project.

Response of the Management

Not replied.

Auditor's Recommendation

Project carder should review time to time.

3.5 Contract Administration

Audit Issue

- i Two landscape plans, amounting to Rs. 117 million introduced by the revised estimate under component 01 landscape based planning and management component, had not been completed.

Response of the Management

The real operational works of Landscape Management Planning (LMP) of component one was commenced in June 2017.

Hurulu – Kaudulla - Kanthale (HKK) Zone (530,000 ha) -This was the zone for first LMP and initial studies on management, protection, environment and natural resources were done by PMU staff. Thereafter, three experts were deployed for detail research work on three aspects. The required information was collected.. Based on these information and data, the first LMP for HKK was developed and completed by ‘TEAMS Consultants’ in 2019 with the participation of key stakeholders.

The second LMP for Sinharaja Forest Reserve (SFR) - Open tenders were called to select consultants for this task in October 2019 and Contracts were signed in February 2020. This consultancy team was comprised with seven local experts with a foreign lead-consultant. The same HKK procedure was followed in zonal, district and national levels. By June 2021, nearly 95% of work completed in this exercise and it was scheduled to complete LMP for SFR by August 2021. As per the original plans, this should have been completed by 15 March 2021 but COVID- 19 situation was affected for this six-month delay.

Auditor’s Recommendation

Complete the activity accordingly.

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| ii | The Sustainable Development Secretariat, which had been identified as the implementing agency for component number 01 as per the project agreement, had not made an active contribution to the aforesaid work at the time of the audit. | Sustainable Development Secretariat functioned under the Ministry of Sustainable Development, Wildlife and Regional Development as DWC was also functioned under the same ministry. But the Forest Department was under the Ministry of Mahaweli and Environment Conservation and ESCAMP was also functioned under the same ministry. The officials of Ministry Sustainable Development, Wildlife and Regional Development represented all Progress Review Meetings, Steering Committee Meetings and even in the Technical Committee Meetings in 2017, 2018 and 2019. Eventuality, the Sustainable Secretariat was not properly functioned and subsequently there was a change of ministries as well. From year 2020 onwards, The component one was implemented successfully under the Ministry of Wildlife and Forest Conservation. This arrangement was made with the consent of the World bank. | Corrective actions should be implement. |
| iii | After the preparation of the wet zone and dry zone landscape plans, the institutional background required for implementation and obtaining the necessary legal approvals had not been obtained even at the time of Audit. | Subsequent to the World Bank Mission in April 2020 and several progress review meetings, the Bank has decided to make a request to the Secretary to the Wildlife and Forest Conservation to appoint Committees for LMP zones. Accordingly, the Bank has sent a request to the ministry in early May 2021. Other required steps will be taken in the future. | Institutional framework should developed. |
| iv | The procedures required for the identification and gazetting of No Development Zones desired by the Landscape Planning and Management have not been completed by the audit date. | Different zones will be included in Maps for HKK and SFR plans and therefore separate gazette notifications are not essential to declare No Development Zones. | Should completed timely. |

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| v | Project component 2b - An early warning system for human-elephant coexistence was tested in two villages but it was observed that it was not sufficient to achieve the project objective. | The ‘Elephant Early Warning System’ was developed on a pilot basis supplementary to the community-based electric fencing. Accordingly, this system will be tested only in selected few locations and based on the success or results this could be further extended to other areas. The approval from Funding Agency is also essential for further expansion. | Project objectives should be achieved through the activities. |
| | | This activity was not included in the original proposal and based on the positive results of ITI pilot program, there is a possibility to introduce the system to other prospective areas as well. | |
| vi | Under Project component 2B, 47 village fences and 60 agricultural fences were planned to be installed and equipment required for 30 village fences was purchased during the year under review at a cost of Rs. 40.82 million. However, according to the plan, information on villages and agricultural fences completed by the end of the year was not submitted for the audit. | Under the project, planned village fencing number was 47. (Approximately 25 in Kurunegala and 22 in Anuradhapura and Hambantota districts). By end of 2020, nine fencing was completed and another was nearing completion in Kurunegala. Construction of another six fencing was also started. Initial works were commenced on several fencing In Anuradhapura and construction works are yet to be completed. | Project objective should achieve within the timeframe. |
| | | The planned agricultural (paddy field) fencing was sixty. (Thirty fencing in each district). But so far no single agricultural fencing was completed in both districts. (Procurement of equipment for fencing was commenced and proposals for agricultural fencing was called through the Agrarian Development Department). | |