

Ecosystem Conservation and Management Project - 2022

The audit of financial statements of the Ecosystem Conservation and Management Project for the year ended 31 December 2022 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 of 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 is the Implementing Agency of the Project. The objective of the Project is Improve the management of ecosystems in selected locations in Sri Lanka for conservation and community benefits. 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.9,675 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 2022. However, the date of completion of the activities of the Project had been extended up to 31 May 2023 and the total project cost reallocation to US\$35 million equivalents to Rs.7,630 million.

1.3 Qualified Opinion

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 2022, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 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 Deficiencies	Amount Rs.	Response of the Management	Auditor's Recommendations
(a)	Although expenses of Rs.255,849,644 and Rs.865,194,268 for the purchase of property, plant, and Equipment and for work in progress, respectively, had been incurred during the year under review, it was observed that the cash outflow of investing activities had been taken by adjusting the opening and closing balances of the ledger accounts by Rs.827,539,405 and Rs.275,714,065 respectively.	1,121,043,912	Previously, the cash flow was taken by adjusting the difference between the relevant accounting year and the previous accounting year, but now the relevant adjustments have been made properly and the cash flow has been obtained.	Cash outflow should be properly identified.

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| (b) | It was shown in the note that assets amounting to Rs.278,756,951 had been disposed, while there was no disposal of Property, plant and Equipment. However, since the value was not adjusted to Property, Plant and Equipment, its effect was not observed. | 278,756,951 | Appropriate measures have been taken to address and correct this issue and necessary action will be taken to prevent such omissions in the future. | Property, plant and Equipment Note should be properly disclosed in the financial statements. |
| (c) | Although the opening balance included in the note No. 20 for other implementing agencies in relation to the property, plant and Equipment was Rs.252,136,086 correspondingly, the value of the Statement of Financial Position was Rs.266,513,092 Accordingly, a difference of Rs.14,337,007 was observed. | 14,337,007 | Error in the opening balances of the accounting system has been identified and steps have been taken to rectify it. | Opening Balances should be identified correctly and accounted. |
| (d) | Even though Rs.351,571,703 had been transferred to property, plant and Equipment from working progress in relation to the Other Implementing agencies, it had been capitalized as Rs.348,158,269 and accordingly, a difference of Rs.3,413,434 was observed. | 3,413,434 | working progress was less identified in transfer to property, plant and Equipment from note 22 to 20 of other implementing agencies and steps have been taken to rectify it. | Working progress and Property Plant and Equipment should be accounted correctly. |

2.2 Non- compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
Paragraph 4.2.5 of Project Operational Manual	Although the fixed assets verification should be conducted annually, assets belong to ESCAMP that used by the Department of Wildlife Conservation and Department of Forest conservation had not been done accordingly.	Assets verifications are carried out by the Departments.	Fixed assets verification should be conducted annually and certified the existence of the assets.

3. Physical Performance

3.1 Delays in completion of activities of the Project

Activity	Responses of the Management	Auditor's Recommendations
(a) During the year under review, five activities to improve the living conditions of 105 family units in the Ratugala area of Monaragala district, which were planned to be implemented under the allocation of Rs. 0.72 million through the Department of Wildlife Conservation, were abandoned, and another was planned to be completed under the allocation of Rs.232.93 million. Nine tasks could not be completed. Furthermore, under the program to facilitate betel cultivation of 80 perches for one family through the Udawalawa National Park, the betel plants that were given to 14 family units at a cost of Rs.0.770 million were affected by a disease and destroyed before harvesting.	Unwillingness of some aboriginal leaders and inability of obtaining recommendations from zonal educational office had been led to this termination.	Project objects should be achieved.
(b) The physical progress of seven activities that were planned to be completed by the allocation of Rs. 61.5 million under the conservation and management of protected areas implemented by the Department of Forestry in the reviewed year is between 32 percent and 65 percent, as is the establishment of an eco-friendly tourism industry in the vicinity of protected areas. The physical progress of the two construction works done with the allocation of Rs. 10 million was also 40 percent.	Although the prevailed fuel crisis and increasing prices of building materials had been led to termination of construction in Sinharaja and Nuckels, project implementation unit has taken necessary actions to complete those constructions with in project time line.	Project objectives should be achieved.
(c) In order to develop the institutional capacity of the Department of Wildlife Conservation and the Department of Forestry, the initial estimate of Rs.1,913 million implemented by the Project Management Unit in 06 projects, the scope of which had been suspended and reduced to Rs.1,738 million as new projects in 2023. A new contractor was assigned to finish on May 31. Accordingly, by reducing the scope and re-assignment, the Rs.415.07 million with a total cost of Rs.2,153.07 million, it is observed that the cost is higher than the estimate.	Due to the prevailed economic crisis, increasing the prices of raw materials and lack of raw materials, contractors had given up the projects, Because of this reason project implementation unit had completed those projects according to the instructions given by the Ministry of Wildlife and Forest Conservation.	Projects should be completed within the stipulated project time.

3.2 Uneconomical Transactions

Activity	Responses of the Management	Auditor's Recommendations
<p>Although the course fee charged for the 2017/2018 batch of the Sri Lanka Qualification Guidelines (SLQF) Tier 3 Diploma Course in Wildlife Management conducted by the University of Colombo for 30 officers of the Department of Wildlife Conservation was Rs.3,300,000, it was more than that for the 2019/2020 batch. A fee of Rs.15,000,000 was charged in addition to Rs.11,700,000 and the total amount spent for this course was Rs.38,819,579 and the amount spent for one officer was Rs.1,293,333. The fee per student of the SLQF Level 8 Postgraduate Diploma course conducted by the said university was Rs.250,000 and the World Bank's operational guidelines had not been followed while selecting the University of Colombo, the original copies of the invoices related to Rs.21,590,108 paid to the university and original copies of the vouchers related to Rs.12,785,500 were not submitted for audit. Due to the above facts it could not be observed that this was a frugal transaction.</p>	<p>Due to the inability to hold the course at the Wildlife Research and Training Center in Giritale as planned, unexpected expenses had to be incurred and many studies had to be done in protected areas throughout Sri Lanka to develop the capacity of the field officers.</p>	<p>Such works carried out under foreign loan assistance should be carried out in an economical and effective manner.</p>