

Ecosystem Conservation and Management Project - 2023

The audit of financial statements of the Ecosystem Conservation and Management Project for the nine months ended 30 September 2023 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 30 September 2023, statement of expenditure and its cash flows for the period 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 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. Physical Performance

2.1 Delays in completion of activities of the Project

Activity	Responses of the Management	Auditor's Recommendations
The period of the project had ended on May 31, 2023 and by that date, although the number of fences around the villages to be built was 47, the number of fences that had been built was 31, the number of fences that were only half-completed	According to World Bank guidelines, the maintenance of elephant fences should be done by establishing a fund for the people who will use them. As the district and local political leadership took the view that the people's funds should not be used for this purpose, the societies that could not establish a fund could not issue the Fence instruments, so these instruments were left	Construction of Elephant fences should be completed immediately and should be supervised by relevant Authorities.

was 07, and the construction behind. Efforts have been made to get the of 09 fences had not been support of the Department of Agricultural started or had been Development to streamline this process completed. again.

2.2 Contract Administration

Audit Issue	Responses of the management	Auditor's Recommendations
(a) The estimated length of the electric fence that can be powered by a single energizer is 10 km, and while the necessary equipment was purchased in accordance with this estimate, it was found that 15 of the 31 fences that had been built were shorter than 5 km. Accordingly, the construction of fences with a length less than the estimated length resulted in a large amount of equipment being left in the warehouse.	An energizer can supply electricity to a 10 km long fence and fence posts and equipment have been estimated and procured accordingly.	Actions should be taken to achieve the objective of the Project.
(b) In accordance with section 3.7 of the Code of Procurement Guidelines published in 2011 regarding International Bank for Reconstruction and Development Loans and International Development Association Loans and Grants, adequate confirmations must be submitted to the World Bank to justify the selection of the relevant supplier to adopt the direct procurement method. But the information that such information was submitted in relation to the construction of the Forestry institute, whose estimated value was Rs. 793,534,305, and that approval was given to follow the direct procurement method from the World Bank, was not submitted to the audit. Additionally, even though it states that, in accordance with the decision of the procurement committee meeting on March 1, 2023, the contractors' contract for the incomplete construction of the Forestry Institute is terminated and the agreed-upon price is transferred to new companies to complete the remaining work, it needs to be approved by the Ministry of Urban Development and Housing's Standing Technical Committee. Additionally, such an approval was not submitted to the audit.	It was suggested by the World Bank and the Re-programming and Acceleration of Mega Projects (RAMP) Committee that the building of the Sri Lanka Forestry Institute-Nuwara-Eliya, which had been halted in the middle, be completed before the Eco-system Conservation and Management project's end. Accordingly, on the condition that local funds will not be provided for this construction with the agreement of the World Bank, the rest of the construction of the Nuwara-Eliya Forestry Institute was carried out by the Central Engineering Consultancy Bureau under the Ministry of Urban Development and its affiliated construction company, the Central Engineering Services (Pvt) Limited. Payments have been made subject to the rates recommended by the Standing Technical Committee of the Ministry of Housing.	The approval of the World Bank for adopting the direct procurement method in relation to these constructions and the approval obtained from the standing technical committee of the Ministry of Urban Development and Housing for the agreed prices should be submitted for the audit.

2.3 Idle Resources

No	Audit Issue	Responses of the Management	Auditor's Recommendation
(a)	Part of the equipment purchased for the construction of electric fences around villages and paddy fields in Anuradhapura and Kurunegala districts was given to the relevant societies and the Anuradhapura and Kurunegala Assistant Director Offices of the Department of Agricultural Development. 16 12V (90 Am) batteries, costing Rs. 534,400, were purchased for energizers and equipment worth Rs. 80,740,804 and had been stored insecurely at the Wildlife Office premises in Ritigala, Moragoda, and Maha Dibulwewa at the end of the year under review.	The remainder of the equipment purchased for the construction of electric fences around villages and fields in Anuradhapura and Kurunegala districts has been given to be utilized for the work of the Wildlife Conservation Department.	The Department of Wildlife should be directed to utilise this equipment effectively and built and maintain the fence in proper manner.
(b)	Out of the 3183 units of Tension Spring that had been purchased for the construction of electric fence, only 56 units were issued for electric fences, 3127 units worth Rs.7,817,500 were still in the warehouse at the end of the year under review and in case of damage to the electric fence worth Rs.1,408,500. 09 units of fence voltage alarm with siren and flashlight were also unused in the warehouse of Moragoda Wildlife Beta office.	The remainder of the tension spring purchased has been given for the use of the department of wildlife conservation.	For the effective utilization of these equipment purchased under foreign funded projects and the work of the Department of wildlife Conservation should be directed and followed up.

2.4 Matters in Contentious Nature

Audit Issue	Responses of the Management	Auditor's Recommendation
While the Original Contractor had completed more than 50 percent of the construction work of the Forestry Institute with an original estimated value of Rs.1345 million as per the Bill of Quantities (BOQ), 02 new companies had been awarded at an estimated value of Rs.793,534,305 to complete the rest of the works. Accordingly, at the time when the original contractor stops the construction work of the Junior Staff Quarters, Electrical Installations, Painting of Bathroom and Toilet walls to prevent water leakage (Water Proof) and painting of outer walls have been completed to 60 percent. Due to the fact that the completed works were also included in the Quantity sheets and assigned to the new Company, an additional Expenditure of Rs. 8,586,182 had to be incurred	Action has been taken to appoint a committee to check whether double counting has occurred for the construction.	The officers who were responsible for the overpaid expenses related to the construction carried out under the foreign funded project should be identified and necessary action should be taken.