

Ecosystem Conservation and Management Project - 2021

The audit of financial statements of the Ecosystem Conservation and Management Project 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 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 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.10,007.39 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 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 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, 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

No	Accounting Deficiencies	Amount Rs.	Response of the Management	Auditor's Recommendations
(a)	The retention money amounting to Rs.16.2 million of 11 contracts completed by Department of Wildlife Conservation had been accounted as Rs.18.6 million. Therefore, balance of the retention had been overstated in the financial statements.	2.4	Action will be taken to rectify the over accounted retention value.	Retention money should be properly identified and accounted.

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| (b) | Labour chargers made to farmers' organizations to make 2,800 boundary poles for the use of around the Padaviya reserve belongs to the Department of Forest Conservation had not been identified as fixed assets according to the Sri Lanka Accounting Standards No.16. | 5.9 | Necessary action will be taken to transfer the amount of Rs.5.9 million to the relevant assets accounts. | Action should be taken to adhere with Sri Lanka Accounting Standards. |
| (c) | An Expenditure incurred for rehabilitation of a toilet system in the Hurulu Ecological Park belongs to the Department of Forest Conservation had not been identified as fixed assets according to the Sri Lanka Accounting Standards No.16 | 3.2 | Necessary action will be taken to capitalize the amount of Rs.3.2 million spent on repair the toilet scheme in Hurulu Ecological Park under Department of Forest. | - Do - |
| (d) | The cost of Rs.6 million and Rs.3.5 million incurred for the construction and other activities of the Department of Wildlife Conservation and the Department of Forest Conservation respectively had not been accounted as an accrued expenses as at 31 December 2021. | 9.5 | Necessary action will be taken to prevent such omission in the future. | Accrued expenses should be properly identified and accounted. |

2.2 Non- compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	Section 4.2.1 of Government Procurement Guidelines	A detailed procurement plan had not been prepared.	Annual procurement plan had been prepared and approved with necessary amendments.	Action should be taken to comply with the provisions of the Government Procurement Guidelines.
(b)	Paragraph 07(iii) of the National Budget Circular No.08/2018 and dated 16 July 2018	Contrary to the circular instruction, two vehicle had been used by the Project Director.	This vehicle is currently being used by all the officers of the project as per the requirement.	Action should be taken to comply with the circular instruction.
(c)	Paragraph 09 of the National Budget Circular No.01/2019 and dated 15 March 2019 and	According to the circular, a project implementation committee had been established. However,	The project steering committee meeting has also become difficult due to the	Action should be taken to comply with the circular instruction and the

paragraph 2.1.1 of the Project Operational Manual.	treasury representative had not been appointed to it. Although it should be held at least once a quarter, it had not been done since 2016 to 2021.	Covid-19 epidemic situation and the post of Secretary has changed during the year 2020-2021 accordingly.	Project Operations Manual.
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(d) Paragraph 4.2.5 of Project Operations Manual	Although the fixed assets verification should be conducted annually, Department of Wildlife Conservation and Department of Forest conservation had not been carried out accordingly.	Assets verifications are carried out by the Departments.	Action should be taken in accordance with the Project Operations Manual.
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3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Component	Activities	As at 31 December 2021		Audit Issues	Reasons for delays
		Expected physical performance	Performance achieved		
		Percentage	Percentage		
3(c)	Construction of Junior Staff Quarters and Senior Staff Quarters of the Sri Lanka Forestry Institute Nuwara Eliya (Package 1)	100	56.1	The Project had not been completed within the stipulated time and necessary actions had not been taken regarding the delays.	Existence of structural of issues, Delay by end user clearance, Issue of drawings and instructions and fuel & material scarcity.
3(c)	Construction of the Infrastructure work and Renovation of Buildings at Sri Lanka Forestry Institute Nuwara Eliya (Package 2)	100	50.3	-Do-	Issues of finalization of sewer treatment plant location, structural issues and Fuel and material scarcity.

3(c)	Construction of Cafeteria, Renovation of Workshop Forestry Institute in Nuwara Eliya- (Package 3)	100	40.62	-Do-	Delay instruction, Changed Bathroom details, and Fuel & material scarcity.
3(c)	Renovation Of Gymnasium, Director's Bungalow, Circuit Bungalow and Construction of Garages Forestry Institute in Nuwara Eliya (Package 4)	100	86.95	-Do-	Construction obstacles occurred during pipe laying through other contractors and Fuel & material scarcity.
3(c)	Construction of New Administration Staff Accommodation (3 Blocks), Play Ground and Road Network of Sri Lanka Forestry Institute Nuwara Eliya (Package 5)	94.5	34.2	-Do-	Delay in removal of trees for internal road construction, Issues of identification and alignment of boundary fence construction and Fuel & material scarcity.
3(c)	Construction of New Administration Building and Renovations of Junior Staff Accommodation and Auditorium Building of Sri Lanka Forestry Institute Nuwara Eliya (Package 06)	33.05	18.1	-Do-	Delayed due to end user's clearance and Fuel & material scarcity.
3(c)	Renovation of existing academic/Admin building at National Wildlife Research and Training Center Girithale (Package 01)	100	30.5	-Do-	Contractor is facing cash flow issues.

3(c)	Renovation of old hostel at National Wildlife Research And Training Center Girithale (Package 02)	100	19	-Do-	Contractor is facing cash flow issues.
3(c)	Construction of New Academic Complex at National Wildlife Research And Training Center Girithale (Package 03)	100	39	-Do-	Contractor is facing cash flow issues.

Response of the Management

Nuwara-Eliya Forestry Institute expected to be completed in December 2022 and Contractor of the Giritale Training Center expected to be terminated and will be retendered.

Auditor's Recommendation

Action should be taken to achieve the objectives of the project.

3.2 Contract Administration

Audit Issue

A sum of Rs.17 million had been paid to the contractor without performing the hydraulic pressure testing for 11,123 meters on the contract for supply of water for the tanks and staff of the Yala National Park.

Response of the Management

Payments are made after a pressure test.

Auditor's Recommendation

Proceeds of the Loan should be utilized efficiently.