

Ecosystem Conservation and Management Project - 2018

The audit of financial statements of the Ecosystem Conservation and Management Project for the year ended 31 December 2018 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. 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 report 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 Implementation Agencies of the Project. The objective of the Project is 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 three main components namely pilot landscape planning and management, sustainable use of natural resources and human – elephant co – existence and improvement of institutional capacities on protected area management etc. 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance 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 skepticism 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 Physical progress of the activities of the Project

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The Progress Report prepared by the Project was not in line with the Action Plan of the Project for the year under review and as a result, the progress of the activities implemented by the Project could not be monitor in audit.	Lack of monitoring mechanism to compare the progress of the Project.	Not commented	Progress report should be complied with the Action Plan to review.

2.2 Extraneous Activities/ Payments made out of the Project objectives

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
01. A sum of Rs. 6.15 million spent to procure equipment and utensils for the use of circuit bungalows of Department of Forest Conservation in Trincomalee and Jaffna respectively had remained out of the scope of works of the Project.	Over running of the estimated cost of the Project.	This matter had been referred to the Forest Department and will expect to provide the relevant answers within a short period of time. However, the necessary instructions had been made to both implementing agencies to stick on the project scope.	Need to ensure to use of fund to achieve intended objectives of the Project.

02. It was observed that 03 motor vehicles procured at a cost of Rs.112.50 million during the year under review for the use of the field staff had been allocated to the officers of the Implementing Agency and Presidential Secretariat.
- Use of assets of the Project for other purposes.
- The PMU was procured and transferred those vehicles for field duties with the view of improving the capacity of both implementing agencies.
- Need to ensure to use of the assets of the Project for intended purposes.

2.3 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
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<p>Although a contract had been awarded at an estimated cost of Rs.7.24 million to a private party for the production and broadcasting 08 television programmes related to the environment protection purposes, an action had not been taken to broadcast the programmes produced at a cost of Rs.5.40 million even as at 31 December 2018.</p>	<p>The intended benefits could not be reached.</p>	<p>The Department of Forest Conservation is expected to broadcast the programmes in 2019 and a project proposal had been submitted to the PMU for requesting of financial assistance.</p>	<p>Need to achieve the objectives of the Project.</p>

2.4 System and Controls

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
The cost of Rs.3.14 million had been spent to maintain a hired building without entering into an agreement with the owner.	Fruitless expenses	The PMU entered with an agreement with the building owner on 28 March 2018. Presently, PMU is working on this matter and discussions are going on to deduct this maintenance cost on future rental payments.	Need of adherences with the clauses of the rent agreement to avoid disputes and wasteful expenses.