

Eco System Conservation and Management - 2019

The audit of financial statements of the Eco System 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 (SLAS). 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. Comments on Financial Statements

2.1 Accounting Deficiencies

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) According to the financial statements presented, the amount of Rs.5,028,177 payable to State Timber Corporation whereas the corresponding value had been indicated as Rs.5,671,846 in the financial statements of the State Timber Corporation as receivable. In this connection no action had been taken to reconcile the difference of Rs.643,668 and rectify the amount shown in financial statements.	Classification error	The amount of Rs.5,028,177 was recorded as per the invoices received from Timber Corporation with relevant provisional amounts for water and Electricity. The necessary action will be taken to reconcile it in the future.	Should take into account correctly
(b) The value of work-in-progress Rs.482.29 million had been erroneously accounted as fixed assets under the property, plant and equipment.	Classification error	The correction will be done in the future Financial Statements.	Should take into account correctly
(c) Balances of mobilization advances and retention money of Rs.68.90 million and Rs.26.36 million respectively had not been brought to the financial statements.	Classification error	The correction will be done in the future Financial Statements.	Should take into account correctly

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Even though 70 percent of the period of the Project had lapsed as at 31 December 2019, the financial and the physical progress had been remained at 24 per cent and 31 per cent respectively.	Failure in internal control	Due to the specific nature of the Project, two implementing agencies experienced lot of problems during the initial years of Project implementation. However, almost all these barriers were cleared and the Project is progressing at an accelerated rate.	Should follow the activity plan

3.2 Extraneous Activities/ Payments made out of the Project objectives

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) The Project had not identified specific procurement activities to be carried out during the period of the Project. Therefore, procurement plan had been revised in 51 instances by the Project office. Further, it was observed that the procurement activities of the Project value at US\$ 27,186,606 equivalent to Rs.5,029,522,110	Failure in internal control	The amendments to the procurement plan were done as per the changing requirements of the implementing agencies with the approval of world bank. However, plan for the entire project period has been developed at present.	Plan should be stable

representing 52 per cent expected to be carried out up to 31 December 2019 had been canceled, due to inefficiencies of preparation of procurement plan properly.

(b) Three computers valued at Rs.509,700 procured during the year under review for the Department of Wildlife Conservation had been retained in the stores premises without being utilized for the intended purposes.	Fruitless expenses	Three computers were reserved for fixing of a “Android Mobile Device” and to be used for virtual field monitoring purposes. However, the specified Mobile Device was not available in local market and needed to be imported. Procurement is in progress and the computers will be used effectively in the future.	Agree with the comments. So the Para may be stand.
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3.3 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor’s Recommendations
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A Communication Consultant had been recruited without obtained the approval of the Secretary to the Line Ministry as per the Section 2.2.1 of the Consultancy Procurement Guidelines on the basis of payment of Rs.900,000 for a period of 03 months by the Project office.	Over running the guideline	Recruitment was based on the request of the World Bank mission and included in the agreed actions at a wrap up meeting chaired by the Secretary.	Evidence was not given. So the para may be stand.

3.4 System and Controls

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
<p>Even though the Lease Agreement entered into with the State Timber Corporation and Project office for rented out the Project office building for the period up to 08 February 2020, the Project office had been functioned in the same premises continuously up to 26 August 2020 without being entering into a new Lease Agreement for the remaining period.</p>	<p>Lack of monitoring</p>	<p>of Actions are being taking to sign for a new contract agreement with State Timber Corporation form 09th February 2020 to 30th June 2021.</p>	<p>As per the given comment, I propose to drop the para.</p>