

Climate Resilient Integrated Water Management Project (CRIWMP) - 2021

The audit of financial statements of the Climate Resilient Integrated Water Management Project (CRIWMP) 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 17.01 (b) of the Grant Agreement dated 05 August 2016 entered into between the Green Climate Fund (GCF) and the United Nations Development Programme (UNDP). 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 Grant Agreement of the project, the Ministry of Irrigation is the Executing Agency and Development of Agrarian Development, Department of Agriculture, Department of National Community Water supply, The National Water Supply and Drainage Board and Ministry of Disaster Management are the Implementing Agency of the Project.

The objectives of the Project is to support GOSL's vision to increase resilient and enhance the live and livelihood of the smallholder farmers, particularly women in the dry zone through an integrated approach to water management to safe guard food security, health and well-being against climate change risk and impacts. The activities of the Project are implemented under Four components namely upgrading and enhancing resilience of village irrigation system and scaling up climate resilient farming practices in three river basins of the Dry Zone. Enhancing climate resilient, decentralized water supply and management solutions to provide year round access to safe drinking water to vulnerable communities, Strengthening climate and hydrological observing and forecasting system to enhance water management and adaptive capacity of smallholder farmers to droughts and flood and project management

As per the Grant Agreement, the estimated total cost of the Project was US\$ 52.084 million equivalent to Rs. 7,521.45 million and out of that US\$ 38.084 million equivalent to Rs. 5,499.71 million was agreed to be financed by Green Climate Fund (GCF). The balance amount of Rs. 2,021.74 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on July 2017 and scheduled to be completed by June 2024.

1.3 Disclaimer Opinion

I do not express an opinion on the accompanying financial statements of the Project. Because of the significance of the matters discussed in the section 2 of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.4 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 Public Sector 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.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Project's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

2. Comments on Financial Statements

Following observations are made.

| No | Audit Issue | Responses of the Management | Auditor's Recommendations |
|-----|--|--|---|
| (a) | A Funded Activity Agreement (Grant) had been entered into between the United Nations Development Programme (UNDP) and Green Climate Fund (GCF) on 07 June 2017 to provide USD 38.084 million equivalent to Rs. 5,499.71 million to the Government of Sri Lanka(GOSL) for the period from July 2017 to June 2024. According to the Agreement, the Ministry of Mahawali Development and Environment (MMDE) is the Executing Entity of the project and the UNDP is the Accredited Entity. The objective of the project is to mitigate the problems faced by smallholder farmers, due to climate change in the dry zone of Sri Lanka and a Project Monitoring Unit was established under the MMDE with effect from 01 July 2017 in accordance with the approval of the Cabinet of Ministers dated 04 October 2016. According to Clause 3 of the Funded Activity Agreement (FAA), an amount equal to US\$ 38.084 million, which shall be disbursed by the Accredited Entity (UNDP) to the Executing Entity (MMDE) in the form of a grant for the purposes of, and to assist in financing the funded activity. Even though, the Green Climate Fund had provided US\$ 22.23 million equivalent to Rs 3,774.17 million over last 04 years to the UNDP, US\$ 6.96 million equivalent to Rs. 1,128.09 million had only been disbursed to the MMDE as at 31 December 2021 and the balance of US\$ 15.27 million equivalent Rs.2,646.08 million had been spent by the UNDP to carry out several activities of the project. | Even though there is no specific confirmation letter received with regards to the GCF disbursement at the PMU office the disbursement could be ascertained from the Combined Delivery Reports (CDR) for the subjective period. Currently a letter was received from UNDP (The Accredited Entity) starting Disbursements. | Funds Provided by the Donor Agency should be channeled through the Central Bank, used for the purpose of the project and accounted. |

Since the financial statements had been prepared only for the amount disbursed to the Executing Entity (MMDE) which represent 30 percent of the

total disbursements, the financial performance and the financial position of the whole project does not reflect and my audit work was limited to the activities carried out by the MMDE.

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| (b) | The liabilities relating to commitment charges and uncertified work done, amounting to US\$ 2.3 million equivalent to Rs.458.09 million had been included to the Combined Delivery Report provided by the UNDP. However, those commitment fees and value of uncertified work had not been disclosed in the financial statements. | This construction works carried out by the PMU was fully paid before 31 st December every year. For this purpose, the bills up to work done were called on or before 15 th December. Furthermore, there is no provision made for the commitments as the practice followed by the UNDP (the accredited entity). | Action should be taken to disclose whole liabilities in the financial statements. |
| (c) | A sum of Rs. 1,128.09 million and Rs. 1,089.96 million had been shown as financed by GCF and GOSL respectively under the equity and liabilities of the statement of financial position in the year 2021. However the information for the GCF remittance and GOSL contribution over last 4 years had not been separately disclosed in the financial statements. | Although not attached the detailed schedules along with the financial statements, the PMU could provide all the details in regards to equity and liabilities. In future, this will be attached along the financial statements. | Action should be taken to disclose all the necessary details under financial statement items. |
| (d) | According to the Paragraph 48 of the Sri Lanka Public Sector Accounting Standard 01, asset and liabilities, and revenue and expenses shall not be offset unless required or permitted by a SLPSAS, it was observed that the value of current assets and current liabilities as at 31 December 2021, amounting to Rs.87.3 million and Rs.38.9 million respectively had been set off and net amount of Rs.48.4 million had been accounted under output 01 as expenditure. As a result the total expenditure of output 01 had been overstated by same amount. | The observation is accepted. This could be adhered to in the future submission of the financial statements. | Financial statements should be prepared in accordance with the SLPSAS requirements. |

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 |
|--|--|--|---|
| Article 69 of Part 7 of the Project Document | Secretary of the Ministry of Irrigation had certified only the expenses related to the Project Management Unit | Audit observation is accepted. However, this procedure has been adapted due to non-availability of | Combined Delivery Report should be approved by the Secretary to the |

when approving the Combined Delivery Report of 2021. detailed documentary evidence and other detailed data in regards to the project expenditure. Ministry of Irrigation without any conditions.

3. Physical Performance

3.1 Contract Administration

Audit Issues

According to the schedule 3 of the Funded Activity Agreement (FAA), The Project should be implemented by Department of Agrarian Development, Department of Agriculture, Department of National Community Water Supply, The National Water Supply and Drainage Board and Ministry of Disaster Management. However, the project implementation had not been done according to the provision of this clause of FAA. As well as, total project implementation have been carried out by Ministry of irrigation and Accredited Entity (UNDP).

Responses of the Management Auditor's Recommendations

Audit observation is accepted. Necessary actions should be taken to obtain co-financing from the relevant parties as per the agreement.

3.2 System and Controls

| No | Audit Issue | Responses of the Management | Auditor's Recommendations |
|-----|---|---|--|
| (a) | The budget allocation of the project for the year 2021 was Rs.1,000 million and accounted expenditure in the financial statements of the Ministry was Rs.108 million. Accordingly, the expenditure incurred by UNDP amounting to Rs.636.8 million had not been accounted under the Ministry. | Audit observation is accepted. | Action should be taken to account all the expenditure incurred under the project. |
| (b) | Although, the funds amounted US\$ 22.23 million were received to the UNDP account from the Green Climate Fund under the project, according to the letter numbered SC&PMU/Grant/19 and dated 25 July 2019 of the Director General of External Resources, a Special (Dollar) Account had not been opened at the Central Bank of Sri Lanka for the project by the Project Monitoring Unit. | The funds released by the GCF to date is US\$21.6 million only. The disbursement procedure of the GCF is sending of proceeds to implementing agency through the Accredited Entity. Therefore there is no reason to open a dollar account. | Action should be taken to follow the correct mechanism for account foreign grants. |

- (c) In accordance with Clause 7 of the FAA, the Reporting, Monitoring and Evaluation shall be done in accordance with Schedule 04. For the Reporting, Monitoring and Evaluation of project activities, the project should prepare a proper progress reporting mechanism. For this purpose, the project should identify project deliverables, quantities of the deliverables and each and every Activity Execution Time Plan. The Annual Work Plan should be prepared based on these project deliverables, beneficiary and budget targets. When inquired from both parties – PMU and UNDP, proper progress report were not submitted to the audit. Therefore, it is unable to review progress of the project.
- Audit observation is accepted. A progress report which can properly assess project progress will be submitted in due course.
- Necessary actions should be taken to prepare the Annual Work Plan and progress report.