

Climate Resilient Integrated Water Management Project (CRIWMP) - 2022

The audit of financial statements of the Climate Resilient Integrated Water Management Project (CRIWMP) for the year ended 31 December 2022 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 Democratic Socialist Republic of Sri Lanka and 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, the Ministry of Irrigation is the Executing Agency and Department of Agrarian Development, Department of Agriculture, Department of National Community Water supply, National Water Supply and Drainage Board and Ministry of Disaster Management are the Implementing Agencies of the Project.

The objective of the Project is 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.2021.74 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 Basis for Disclaimer of Opinion section 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 Basis for the Disclaimer of 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.

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 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.

1.6 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	Response 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 US\$ 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 Mahaweli 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 FAA (Funded Activity Agreement), an amount equal to USD 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 purpose of, and to assist in financing the funded activity. Even though, the Green Climate Fund had provided USD 30.01 million equivalent to Rs. 6,650.66 million over the last 06 years to the UNDP, US\$ 7.99 million equivalent to, Rs. 1,465.15 million had only been disbursed to the MMDE as at 31 December 2022 and the balance of	Observation is accepted	Funds Provided by the Donor Agency should be channelled through the Central Bank and used for the objectives of the project.

US\$ 13.94 million equivalent Rs. 2,776.61 million had been spent by the UNDP to carry out the several activities of the project. Accordingly, balance fund of US\$ 8.08 million equal to Rs. 2,408.9 million had been retained by UNDP.

Since the financial statements had been prepared only for the amount disbursed to the Executing Entity (MMDE) which represent 26 per cent of the total disbursement, the financial performance and the financial position of the whole project does not reflect by the financial statements and, audit work was limited to the activities carried out by the MMDE.

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| (b) | Although an unidentified credit balance of Rs.53 million had been shown as cumulative funds in the trail balance for the year under review, such a balance had not been included in the statement of financial position. | Answers were not submitted. Audit observation was accepted during the discussion. | Actions should be taken to disclose all transactions in the financial statements. |
| (c) | The liabilities relating to commitment charges and outstanding advance received amounting to US\$ 397,873.84 equivalent to Rs.144.47 million had been included in the Combined Delivery Report provided by the UNDP. However, those charges and outstanding advances had not been disclosed in the financial statements. | Answers were not submitted. Audit observation was accepted during the discussion. | Actions should be taken to disclose whole liabilities in the financial statements. |

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Article 69 of part 7 of the project Document	The Combined Delivery Report (CDR) should be approved by the secretary of the Ministry of Irrigation (Implementation Agency). However; the Secretary had certified only the expenditure amounting to US\$ 12.5 million which related to the Project Management Unit when approving the Combined Delivery Report within the period of 2017 to 2022.	Observation is accepted	Combined Delivery Report should be approved by the Secretary to the Ministry of Irrigation without any condition.
(b)	The Section B of funding proposal of the FAA	A sum of Rs. 1,465.15 million (US\$ 7.99 million) from the Green Climate Fund and Rs. 1,489.95 million (US\$ 6.81 million) from GOSL had been	The Project has been a subject of controversy due to a Letter of Agreement signed with	Government contribution should be release based on the

received to the project management unit up to the year ended 2022.

According to the Section B of funding proposal of the FAA, the contribution of the Government of Sri Lanka is 27% and contribution of GCF is 73% of the total budget of the Project. Accordingly, although the expenditure to be incurred by the Government of Sri Lanka for the Project was Rs. 461.62 million, Rs. 1,423.95 million had been spent from 2017 to 2022. Accordingly, the Government of Sri Lanka had incurred expenses of Rs. 962.33 million additionally for the project.

the UNDP. The amount received to the PMU as per the condition. The agreement did not include a clause requiring UNDP to retain funds from the Global Community Fund (GCF) for implementation work. This led to a deviation from clause No. 3, and the Treasury only released Co-Financing funds for the GCF's proceeds. The Ministry of Finance issued a circular requiring accurate reporting of expenditure and co-financing arrangements.

Accordingly, the UNDP submitted their implementing expenditure statement covering 2017 to 2021 on 20th July 2023 to the Secretary, Ministry of Irrigation on 4th August 2023 and with the certification of the Secretary submitted to the Treasury.

- (c) The clause 2.01 of the FAA
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| The Accredited Entity (UNDP) “shall monitor and supervise the implementation of the funded activity by the Executing Entity” without considering that clause, Accredited Entity (UNDP) had engaged in implementation of the project activities and incurred 62.78 percent of the total expenditure amounting to US\$13.94 million equal to Rs. 2,776.61 million within the period of 2017-2022 | Answers were not submitted. Audit observation was accepted during the discussion. | Project activities should be implemented by the executing agency and should monitored and supervised by the accredited Agency as per the FAA. |
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3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	116 numbers of contracts worth Rs. 2,408.6 million had been awarded to renovate 244 tanks from the year 2017 to the end of the year 2022. Among them, 53 tanks belonging to 30 contract packages which valued at Rs. 617.6 million had been inactive for a period of 3 years after completion of 50% of the constructions.	Answers were not submitted. Audit observation was accepted during the discussion.	Actions should be taken to complete the all the project activities within the stipulated period to achieve the project objectives.
(b)	According to the Clause IX (111) & X of the project document, expected contribution of GOSL component was US\$ 12.6 million up to 31 December 2022. However, it is observed that only the US\$ 6.8 million equivalent to 54.09 per cent had been contributed by GOSL up to end of 31 December 2022.	Answers were not submitted. Audit observation was accepted during the discussion.	Actions should be taken to amend the Project document with the concurrence of the donor according to the present situation.

3.2 Matters in Contentious Nature

The following matters pointed out in previous audit report had been remained unsolved.

Audit Issue	Response of the Management	Auditor's Recommendation
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 disclosing in the financial statement.	This Observation is accepted. In due course a detailed breakdown will be submitted along with the financial statements for your kind perusal.	Corrective measures should be taken for auditor's recommendation for the year 2021.