

Climate Resilient Integrated Water Management Project - 2020

The audit of financial statements of the Climate Resilient Integrated Water Management Project (CRIWMP) Project for the year ended 31 December 2020 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 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 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 are the Implementing Agencies 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 systems 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 floods 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 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 significant of the matters discussed in the table 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 Basis for Disclaimer 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

The following observations are made.

No	Audit Issues	Response of the Management	Auditor's Recommendations
(a)	A Funded Activity Agreement (Grant) had been entered into between the United National 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 FAA, an amount equal to USD 38.084 million, which shall be disbursed by the Accredited Entity (UNDP) to the Executing	Accepted	Funds provided by the Donor Agency should be channeled through the Central Bank and use for the purpose of the project.

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 US\$ 20.4 million equivalent to Rs. 3,774 million over the last 03 years to the UNDP, US\$ 5.7 million equivalent to Rs. 1,020 million had only been disbursed to the MMDE as at 31 December 2020 and the balance of US\$ 14.7 million had been spent by the UNDP to carry out several activities of the project.

Since the financial statements had been prepared only for the amount disbursed to the executing Entity (MMDE) which represent 28 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.

- (b) The Ministry of Mahawali Development and Environment had been received Rs.1,020 million equivalent to US\$ 5.7 million from the United Nations Development Programme and Rs. 290 million equivalent US\$ 02 million from GOSL up to the year ended 2020. The contribution received from the UNDP and GOSL had not been shown separately in the financial statement and the financial statement had been prepared including only a sum of Rs. 446.6 million as total net asset / equity.

Accepted.

The expenditure incurred by both parties should be identified by the financial statements presented.

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)	Sections 69 and 70 of Part 7 of the Project Document	The Annual Work Plan had not been submitted for the audit accordingly.	The Ministry of irrigation is taking appropriate steps in order to mitigate the impacts.	Action should be taken to prepare Annual Work Plan accordingly.

- | | | | | |
|-----|--|---|--|--|
| (b) | 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 when approving the Combined Delivery Report of 2020. | Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts | Combined Delivery Report should be approved by the Secretary of the Ministry of Irrigation without any conditions. |
| (c) | Clauses IX(111) & X of the Project Document, | Expected contribution of GOSL component was USD 8,499,000 up to 31 December 2020, However, according to the information received by the audit, it is observed that only USD 2,133,123 or 25.10 percent contribution had only been made by GOSL up to the end of 31 December 2020. | Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts | Should contribute funds as per the agreement. |

3. Physical Performance

3.1 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
---	-----	-----	-----
(a)	In terms of Article 1 of the Fund Activity Act and Fund Resolution B.1 (8), the Department of Agrarian Development, the Department of Agriculture, the Department of National Community Water Supply, the National Water Supply and Drainage Board and the Ministry of Disaster Management are responsible for co-financing activities of the project. However, the above institutions had not submitted the co-financing information for the audit.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Take necessary action to obtain co financing from the relevant parties as per the agreement.
(b)	According to the schedule 3 of the FAA, The Project should be implement 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	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Take a necessary action to obtain co financing from the relevant parties as per the agreement.

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).

3.2 Observations made on site visits

No	Audit Issues	Responses of the Management	Auditor's Recommendations
---	-----	-----	-----
(a)	According to the Funded Activity Agreement (FAA), a sum of USD 15.6 million had been made for the rehabilitation of 325 tanks and reservoirs in 50 cascades. However, only 225 tanks in 17 cascades up to end of the year 2021 had been rehabilitated. Accordingly, it is doubtful whether the rehabilitation work of the remaining tanks could be completed during the remaining project period.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Necessary action should be taken to complete the project activities within the project period.
(b)	According to the given information, the project was allocated Rs.8.26 million per tank. However, the project focused on the rehabilitation of tanks and did not focus on the rehabilitation of canals which link to the tank in the cascades.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Take necessary action to fulfil the overall project objective.
(c)	Although nearly 03 years have passed since the commencement of the project, it has not yet taken action to obtain the relevant clearances from the Department of Forest Conservation, the Department of Wildlife Conservation and the Department of Archeology for 22 tanks. As a result sum cascades were not completed	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts.	Take necessary action to obtain relevant clearance from the line departments within the time period.

3.3 System and Controls

No	Audit Issues	Responses of the Management	Auditor's Recommendations
---	-----	-----	-----
(a)	The total budget allocation of the project up to 31 December 2020 was Rs. 1,807.4 million and the total expenditure was Rs. 2,181.3 million. Accordingly, the project had been spent Rs. 373.9 million over the allocation without proper approval.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts.	Obtain proper approval prior to incur expense of the funds.
(b)	A Special (Dollar) Account had not been open at the Central Bank of Sri Lanka for the project by the Project Monitoring Unit and the fund were received from the Green Climate Fund to the UNDP account.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Action should be taken to maintain proper account in the Central Bank.
(c)	A sum of Rs. 289.9 million by the Government of Sri Lanka and Rs. 2,181.3 million by the Green Climate Fund had been spent for the project up to 31 December 2020. However, it is observed that the project was not reported all the expenditure to the government budget and they reported only the expenditure relevant to the Project Management Unit.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Take action to report all the project expenses to the government budget.
(d)	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 submit to the audit. Therefore, it is unable to review progress of the project.	Audit observation is acceptable to us and accordingly, the ministry of irrigation is taking appropriate steps in order to mitigate the impacts	Should prepare progress report as per the agreement.

