

## **Climate Resilience Multi-Phase Programmatic Approach Project - 2022**

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The audit of financial statements of the Climate Resilience Multi-Phase Programmatic Approach Project 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 the Loan Agreement No. No. 8996 dated 17th September 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development (IBRD). 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 Loan Agreement, the Ministry of Irrigation is the Executing Agency and Department of Irrigation, Disaster Management Centre, Department of Meteorology, National Building Research Organization are the Implementing Agencies of the Project. The objectives of the Project are to improve warnings of high impact weather and hydrological hazards and Kelani Basin multi-purpose water infrastructure for climate resilience. The activities of the Project are implemented under four components namely Forecasting and Early warning of high Impact Weather, Floods and Landslides, Flood Risk mitigation Investment in the Lower Kelani Basin, Project Management and Contingent Emergency Response Component (CERC). As per the Loan Agreement, the estimated total cost of the Project was US\$ 93 million equivalent to Rs.18,600 million and out of that US\$ 92 million equivalent to Rs. 18,400 million was agreed to be financed by International Bank for Reconstruction and Development (IBRD). The balance amount of Rs. 200 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 12th October 2021 and scheduled to be completed by 31st December 2026.

### **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 2022, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 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 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 scepticism 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 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
01	State Accounts Guide No. 2022/05 dated 13 December 2022	Although the annual financial statements should be submitted to the Auditor General on or before February 28, 2023, the project had submitted on 13 <sup>th</sup>	The final accounts for the project were completed in the first week of March and submitted to the Ministry on 16.03.2023. The Ministry took some time to review and verify them and this has led to such a	The annual financial statements should be prepared and submitted to the Auditor General on or before 28th of February

September 2023 with long delay. The necessary over 6 month delay. instructions have been provided to the relevant officials to minimize the delay in the future.

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| 02 | Management Audit Circular No.DMA/2009(2) dated 01 September 2009                   | A Fixed Assets Register in General 287 format is required to be maintained. Although such a register had not been maintained by the project.   | General 198 inventory register is used to keep records for fixed assets of the project. Since, this inventory register is also maintained by the ministry, this same register was used by the project. However, the relevant officers were instructed to use stock register No. 287 or a same register.   | Action should be taken to maintain a Fixed Assets Register in General 287 format.                  |
| 03 | Financial Regulations of Democratic Socialist Republic of Sri Lanka, FR 371(2) (b) | Although an “ad hoc” Sub-Imprest can be given to a staff officer, advances totalled Rs.1,518,220 given to a non-staff officer to meet the expenses for fuel. There were 38 instances of re-advanced before the advances so given were settled.   | The project has limited staff, and no officer to oversee transportation activities. A senior management assistant has been deployed to supervise transportation and fuel advance for project vehicles has been released to this officer. Furthermore, due to the fuel crisis in the year 2022, fuel advance had to be given before advance was settled. | An “ad hoc” sub imprest should not be given without considering the FR.                            |
| 04 | Schedule 2, Section 1 of the Loan Agreement No 8996LK                              | The Project shall establish a National Project Oversight Committee not later than three month after the effective date of the project. Although the project had started on 12th October 2021, had not been complying with the above requirement. | Secretary, Ministry of Finance was informed to take necessary steps to establish of NPOC by Secretary of the Ministry of Irrigation’s letter No CResMPA/PD/NPOC/09 dated 21st February 2022. Once need arises NPOC will be summoned by the Ministry of Irrigation as appropriately.   | National Project Oversight Committee should be functioned as per the conditions of loan agreement. |

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| 05 | Project Appraisal Document | Without alternative solution for implementing the project component of “Land acquisition, Resettlement Assistance and Safeguards Implementation” had been removed after the first restructuring paper. | Before signing the loan agreement related to the Project, as mentioned in the PAD approved by the World Bank, component-3 is the "Land Acquisition, Resettlement Assistance and Safeguards Implementation" component. But due to the situation in the country, the signing of project loan agreements was delayed and they were restructured.  | The impact on the project components and relevant activities should be considered at the restructuring. |
| 06 | Project Appraisal Document | Although the budget for the project should be prepared according to the section 3 of annex 5 of Project Appraisal Document, no budget had been prepared for the project.                               | Before and after signing the loan agreement for the Project, the government appointed various committees and obtained recommendations to decide whether to continue the project or not. Due to this, it was a difficult task to prepare a specific budget estimate for the project. Finally, the government decided to repurpose and implement the project and revised agreements were signed in the year 2023. The project estimate was prepared accordingly. | Action should be taken to prepare a budget for the project as per Project Appraisal Document.           |

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2022		Delay/ Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved Percentage		
Component-01 Forecasting and early warning of high impact weather, floods and landslides.		5.87%	4.00%	Project had been failed to achieve expected performances as per the action plan approved.	<p>The Project experienced slow progress in 2022 due to factors beyond the control of PMU and IAs.</p> <p>Delay in establishment of Project Management Unit and recruiting staff.</p> <p>Appointment of committees to restructure the Project.</p> <p>The Suspension of constructing new buildings and hiring foreign experts.</p>
Component- 02 Flood risk mitigation investment in the lower Kelani basin	2.1 Ambathale salinity barrier and preparatory studies for flood and landslide mitigation	11.96%	4.00%	Project had been failed to achieve expected performances as per the action plan approved.	
	2.2 Detailed designs of Wee Oya Reservoir, bidding documents, Resettlement Action plan (RAP)Environmental Impact Assessment (EIAs)(US\$ 6 million)	12.70%	5.00%	Project had been failed to achieve expected performances as per the action plan approved.	
	2.3 Feasibility studies and detailed designs for upper Deraniyagala Reservoir, RAP and EIA, bidding documents other studies (US\$ 7 million)	5.53%	0.00%	Any activity had not been commenced during the period.	
	2.4 Pre-feasibility and feasibility studies for trans-basin diversions from Kelani to dryer river basins (US\$ 1 million)	26.5%	0.00%	Any activity had not been commenced during the period.	
	2.5 Detailed engineering designs of lower Kelani flood protection works (US\$ 5 million)	9.50%	0.00%	Any activity had not been commenced during the period.	

Response of the Management

The CResMPA project experienced slow progress in 2022 due to factors beyond the control of PMU and IAs. The establishment of the Project Coordination Unit was delayed until February 2022, and the recruitment of approved officers took place from February to July 2022. The government's policy decisions prevented the filling of staff vacancies, causing delays in the implementation of planned project activities.

The government appointed committees to determine project continuation amid economic crisis and social uncertainty, leading to a restructuring of the project by removing certain activities and shifting others to subsequent phases.

The government has stopped construction of new buildings and foreign expert recruitment, causing the abandonment of the National Weather Forecasting and Early Warning Centre for Department of Meteorology, affecting Phase-I disbursement and shifting to Phase-2.

The suspension of hiring experts led to delays in hiring a foreign expert team for the construction of a salinity barrier near the Ambatale water treatment plant and it was badly affected to the preparation of detailed engineering designs for the Wee Oya Reservoir. The feasibility study for the construction of the Upper Deraniyagala Reservoir, the pre-feasibility study to find out the possibility of diverting water from the Kelani River to other river basins and the preparation of detailed engineering designs for the construction of flood control dams in the Lower Kelani River Basin were also temporarily stopped and shifted to Phase-II of the Project.

The Ministry of Irrigation, Ministry of Finance, and the World Bank collaborated to reallocate \$15 million from Project Components 1 and 2 to undertake urgent rehabilitation works in 25 districts. The restructuring of the project has now been completed.

Auditor's Recommendations

Necessary action should be taken to plan according to the restructure and complete the all project activities under each component as planned.

### 3.2 Extraneous Activities/Payments made out of the Project objectives

No	Audit Issue	Response of the Management	Auditor's Recommendation
01	As per the financial statements, a sum of Rs.5 million had been spent for constructions of Ambatale salinity barrier and preparatory studies under the component of 02. It was observed that these expenses were incurred for reimbursement of fuel expenses and sufficient information had not been submitted to the audit for verify eligibility of the fuel expenses for that activity under the component 2. As per details of the bills attached in the above vouchers, it was revealed that Rajanganaya, Huruluwewa and Anuradhapura Divisional Engineering Offices' had purchased bulk diesel stocks 476L, 450L, and 500L	The project was re-purposed due to economic challenges in Sri Lanka. Out of the 92 million dollars approved, 15 million dollars were allocated for activities directly benefiting the people. The project aimed to restore tanks, canals, and dams in the irrigation sector across all districts. In 2022, before preparing these estimates, the district officials had to go to the field to inspect the project sites and the vehicles used for the purpose were provided with fuel by the project. In this way, the money spent on fuel was accounted for under component-02, reserved for	Proper guidelines should be issued for payment of Engineering & Administration activities and accounting process to the implementing agency. The project expenses should be incurred as transparent manner.

respectively and there were no information about the fuel stock which used for the project.

Irrigation Department activities. Due to delays in disbursement of project funds, some regional offices have used their departmental funds for fuel. Considering the number of liters of fuel thus used, they have arranged to purchase the same number of liters, as bulk stocks during the year.

- 02 Fuel expenses amounted Rs. 136,120 relating to the Uma Oya field visit which an activity not related to the project had been charged under CResMPA project
- The Uma Oya Reservoir Project is a project under the Ministry that has built two reservoirs, faced a large number of social problems, and is currently in its final stages. The field trip in was organized on behalf of the CResMPA officials to share their experiences about the challenges faced by the officials of the Uma Oya project during the construction of the reservoirs, the solutions given to them, etc.
- Expenditure should be incurred only for the planned activities as transparent manner.

### 3.3 Idle/ Unutilized/ Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendations
01	Although a sum of Rs.173,420,000 had been received on the project on 31 <sup>st</sup> March 2022 from International Bank for Reconstruction and Development (IBRD), a sum of Rs.29,385,719 only had been spent during the year. As a result a sum of Rs.160,105,720 had been laid down idly in the account without using.	The commencement of works on the Project was delayed due to various reasons. As originally planned, US\$ 0.58 million was received from the World Bank as the money required for 06 months. Project activities were not carried out as planned as mentioned above, only an amount of Rs.29,385,719 was spent during the year.	Funds provided for the project should be utilized towards achieving the objectives of the project economically according to the annual action plan.
02	Although Rs.1,500 million had been allocated under the annual estimate for the year 2022, only Rs.76.72 million (5.11% of allocation) had been utilized. A percentage of 94.89% of the allocation had not been utilized	The establishment of the Project Coordination Unit was delayed until February 2022, and the recruitment of approved officers took place from February to July 2022. The government's policy decisions prevented the filling of staff vacancies, causing delays in the implementation of planned project activities.	Necessary action should be taken to complete the project activities within the project period.

during the year under review. It was observed that project activities will not be able to complete within the period 2021 - 2026 as per action plan in the project Appraisal Document.

The government appointed committees to determine project continuation by removing certain activities and shifting others to subsequent phases.

The suspension of construction of new buildings and foreign expert recruitment, by the government causing the abandonment of the National Weather Forecasting and Early Warning Centre for Department of Meteorology, affecting Phase-I disbursement and shifting to Phase-II.

The suspension of hiring experts was badly affected to the preparation of detailed engineering designs for the Wee Oya Reservoir, the feasibility study for the construction of the Upper Deraniyagala Reservoir, the pre-feasibility study to diverting water from the Kelani River to other river basins and the preparation of detailed engineering designs for the construction of flood control dams in the Lower Kelani River Basin and were also shifted to Phase-II of the Project. The restructuring of the project has now been completed.

### 3.4 Issues Related to Human Resources Management

According to section 01, A.2 of Schedule 2 of the Project Loan Agreement, a project coordination team with adequate professional and administrative staff in numbers and with qualification and experience and under terms of reference satisfactory to the bank, which responsible for the implementation and coordination of the project should be establish within 2 months from the effective date of the project.

However, the project had not been recruited the entire staff approved by the Department of Management Services on 15 December 2022 up to the audited date, 26 June 2023.

Cadre Position	No of Posts	Response of the Management		Auditor's Recommendations
		Approved	Actual As at 31 December 2022	
1. Senior Engineer- Procurement	01	00	01	The government's policy decisions have led to staff reductions and discontinued recruitments, leaving the Project Director position vacant. The Project Secretary, the Ministry has faced difficulties in making Efforts should be made to carry out the activities of the project efficiently by maintaining minimum staff as per the circulars, rules and regulations of the government.
2. Communication Officer	01	00	01	
3. Social and Environment officer	01	00	01	



4. Diver 04 03 01 appointments due to the  
aforementioned policy decisions.  
The Ministry has stated that these  
vacancies will be filled according  
to the government's instructions.

### 3.5 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendations
01	As per annex 05, section 5 of project Appraisal Document, separate books of accounts should be maintained for each project activities. Project had not been maintained sub ledger accounts for expenditures of different activities under three components incurred by GOSL funds and foreign funds.	As per annex 05 of PAD, The PMU maintains separate books of accounts for project activities. All ledger accounts are maintained using MS Excel software and their hard copies was submitted for audit. All expenses were presented component wise, separately by the final account. However, in the year 2023, it is planned to establish a computerized accounting system for the Project. Accordingly, detailed ledger accounts will be presented from the next year final accounts.	According to Project Appraisal Document, separate books of accounts should be maintained for each project activities. Should be maintained sub ledger accounts for expenditure of different activities under three components incurred by GOSL funds and foreign funds.
02	According to the section 13 of annexure 5 of Project Appraisal Document, project management unit should be maintain an accounting system which facilitate to generate expenditure reports by budget classification thus enable to compare with the budget and for effective monitoring of expenditure. Although the PMU had not maintained such an accounting and monitoring system for the project.	The Project's computerized accounting system was delayed due to uncertainty of the appointment of a consultancy procurement committee. Currently, evaluation work is underway to select a suitable consulting firm for the MIS implementation.	The project should be maintained an accounting system for ensure sound financial management.
03	According to schedule 2, Section 1 of the Loan Agreement the Project shall upgrade and make operational, not later than six months after the effective date, operational financial management software acceptable to the Bank had not been prepared. However the project had not paid	A Management Information System (MIS) with an accounting system was purchased for the CRIP project at a cost of Rs.7.4 million. This MIS was developed based on the criteria of the CRIP project. Transactions of Rs. 23,875 million of CRIP project, and information of about 800 contract packages, were entered into this data system and related	The Project should be complied with the Loan Agreement and implemented operational financial management software. Further, should be used the accounting software which purchased

attention to check the ability to use the accounting software which purchased at cost of Rs.7.4 million under the CRIP project.

reports were prepared and activities were monitored quickly and easily.

Some of the activities of CRIP project are also carried out by the CResMPA project, but this is a three-phase program and is based on different objectives and criteria. Many complex tasks such as land acquisitions, compensation payments, input of compensation beneficiaries' information from the field, monitoring using GIS software are required to be done by the MIS of the CResMPA project.

for a CRIP Project with necessary updates.

- 04 As per the initial estimate for the year 2022, Rs.1,500 million had been allocated under three components of the project. According to the annexure 2, budget vs. expenditure which submitted with the financial statement, the initial estimate had been changed as to Rs.570 Mn. However proper approval for the above changes had not been submitted to the audit.
- At the beginning of the year, a provision of Rs. 1,500 million was allocated for the project through the budget estimates. However, due to the delay in commencing the sub projects and the government's lack of a definite decision regarding project implementation, it became evident that the allocated provision could not be utilized as planned. After the discussions with the Ministry, it was agreed to transfer a sum of Rs. 930 million to other projects within the Irrigation Ministry. This transfer was carried out with the approval of the Secretary of the Ministry, as indicated in the transfer letter No. 2022-1980000-BCUV-00000027. Consequently, the annual estimated amount for the project was reduced to Rs.570 million, and expenditures have been reported accordingly.
- Approval of the revised estimate should be obtained in the nearest Project Steering Committee meeting after the change of estimate.
- 05 According to the action plan, expected physical performance at the end of the year under review for project component-3, Project Management was 2.97 percent and actual performance was 14 percent. Therefor the project had been expended 5 times of allocated fund amount for Project Management.
- Project funds are utilized to pay unplanned front-end payments to the World Bank which was not in the work plan of 2022. Other expenditures are in line with the work plan and such payments are for occupying the MASL premises for operating the PCT office, security services, electricity and janitorial services in addition to the salaries and vehicle maintenance cost.
- Project Management cost should be kept under the estimates.

06 Although sum of Rs.71.05 million or 92.6 percent of the total project cost for the year 2022 had been spent for the salaries, allowances and other activities any project activity had not been commenced according to project plan. The project is currently being operated with a limited staff, and their salaries and allowances are provided in compliance with the applicable rules and regulations. Furthermore, it is a common practice for projects to allocate a higher percentage of funds towards administrative and operational expenses at the initial stages. During the early phases of the project, the focus is primarily on essential preparatory activities rather than full-scale development work. Necessary measures will be implemented in the year 2023 to expedite the progress of the project and related activities.