

## **Climate Resilient Integrated Water Management Project (CRIWMP) -2023**

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The audit of financial statements of the Climate Resilient Integrated Water Management Project (CRIWMP) for the year ended 31 December 2023 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 Accreditation Master 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, 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

### 2.1 Accounting Deficiencies

Following observations are made

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The Green Climate Fund had provided US\$ 34.44 million equivalent to Rs. 8,106 million over the last 07 years to the United Nation Development Programme (UNDP), however only US\$ 12.99 million equivalent to, Rs. 3,074.30 million had been disbursed to the Ministry of Mahaweli Development and Environment (MMDE) as at 31 December 2023 and a sum of US\$ 14.91 million equivalent Rs.3,198.12 million had been spent by the UNDP to carry out several activities of the project. Accordingly, Balance fund of US\$ 6.55 million equal to Rs.1,618 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 38 percent of the total disbursement, the financial performance and the financial position of the whole project does not reflect and , audit work was limited to the activities carried out by the MMDE.	According to the FAA project agreement, the project was designated to be implemented as a NIM (National Implementation Modality) project. However, a separate agreement was established between the Ministry of Irrigation (formerly known as the Ministry of Mahaweli Development and Environment, MMDE) and the UNDP to execute the project's activities. Contrary to the terms of this agreement, UNDP has retained all the funds received from the GCF in their bank account instead of sending them to the government treasury. Hence the PMU has followed the procedure accordingly and has requested the Government Treasury through the MOI to provide provision in the Annual State Estimates in line with the	Funds Provided by the Donor Agency should be Channelled through the Central Bank and used for the purpose of the project.

activities to be undertaken by the PMU.

As a result, the financial statements were prepared to reflect only the funds received by the PMU from the treasury. Therefore, the Ministry Secretary certifies the financial statements' value to match the amount received from the Treasury, which is also reflected in the CDR on the same basis.

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| (b) | Although an unidentified credit balance of Rs.65.99 million had been shown in 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.   | This amount has been adjusted to the project value through our accounting system, the quick book accounting package. Accordingly, it was given a breakdown of the account for attention. | Actions should be taken to disclose all the transactions in the financial statements. |
| (c) | The liabilities relating to commitment charges and outstanding advance received amounting to US\$ 203,602.80 equalent to Rs. 63.60 million had been included in the Combined Delivery Report provided by the UNDP. However, those charges and outstanding advances had not been accounted. | Answers were not submitted.  | 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\$ 17,657,672.68 related to the Project Management Unit when approving the Combined Delivery Report within the period of 2017 to 2023.	Answers to audit observation had not submitted.	Combined Delivery Report should be approved by the Secretary..

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| (b) | The Section B of funding proposal of the FAA | A sum Rs. 3,074 million (US\$ 12.98 million) from the Green Climate Fund and Rs. 2,141.95 million (US\$ 8.84 million) from GOSL had been received to the project management unit up to the year ended 2023.<br><br>According to the Section B of funding proposal of the FAA, the contribution of the Government of Sri Lanka is 27 percent and contribution of GCF is 73 percent of the total budget of the Project. Although Rs.3,074 million had been received from GCF for the project and it was only 59 percent of the total project cost. As a result Sri Lanka government had been spent Rs. 1,789 million equal to 36.6 percent of the project cost during the period of 2017-2023. | Answers to audit observation had not submitted.                                   | Government contribution should be released based on the amount received to the PMU as per the conditions of Funding Proposal.                    |
| (c) | The clause 2.01 of the FAA                   | 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 51.84 percent of the total expenditure amounting to US\$14.91 million equal to Rs. 3,198 million within the period of 2017-2023.  | Answers were not submitted. Audit observation was accepted during the discussion. | Project activities should be implemented by the executing agency and should be monitored and supervised by the accredited Agency as per the FAA. |

### 3 Physical Performance

#### 3.1 System and Controls

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendation</b>
The building rental Rs. 482,000 had been incurred under equipment and furniture (Accounting Code no. 72200) of Component 1, contrary to the items shown in cost items 1E and 1K in the Financial Activity Agreement in the project.	Following the budget codes and provisions provided in Table 2 of the FAA, there is no appropriate budget code for rental charges other than code number 72200 under the 1E budget chart.	Expenses should be accounted as mentioned in the FAA.