Climate Smart Irrigated Agriculture Project - 2024

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The audit of financial statements of the Climate Smart Irrigated Agriculture Project for the year ended 31 December 2024 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 III (ii) of the Loan Agreement No.6346-LK dated 11 April 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 Agriculture is the Executing Agency and Implementing Agency of the Project.
The objectives of the Project are to improve the productivity and climate resilience of small holder agriculture in selected hotspots area. The activities of the Project are implemented under three components namely Agriculture Productions & Marketing, Water for Agriculture and Project Management.
As per the Loan Agreement, the estimated total cost of the Project was US$ 125 Mn equivalent to Rs. 22,500 Mn and out of that US$ 110 Mn equivalent to Rs.19,800 Mn was agreed to be financed by International Development Association. The balance amount of Rs. 1,700 Mn is expected to be financed by the Government of Sri Lanka and beneficiaries' contribution.
The Project had commenced its activities on 07 May 2019 and scheduled to be completed by 30 June 2024. However, the date of completion of the activities of the Project had been extended up to 31 December 2025.

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 2024 and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principle.

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 Generally Accepted Accounting Principle 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

	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Circular No CGIR/2019/03-1(Ins. & Cir) dated 09 July 2019 and Circular No	All government entities should send to the Department of Inland Revenue the details regarding to VAT payments to supplier before 15th of next	The observation is correct. It will be corrected in accounts of the year	VAT details should be sent to Department of Inland Revenue.

	CGIR/2021/02-02 dated 09 April 2021 issued by the Department of Inland Revenue	month after quarter. But Project had not prepared and sent the details to Department of Inland Revenue from the beginning of the project.	2025.	
(b)	Circular No 01/2019 dated 15 March 2019 issued by the Department of Management Services	National Steering Committee (NSC) meeting should be held once in two months. However, only two National Steering Committees had been held during the year under review.	The observation is correct.	National Steering Committees should be called according to the circular.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	As at 31 December 2024		Audit Issue	Response of the Management	Auditor's Recommendations
	Expected physical performance Percentage	Performance achieved percentage			
Overall Performance	80	76	The project was started on 11 April 2019 and scheduled to be completed by 30 June 2024.However, the date of completion of the activities of the Project had been extended up to 31 December 2025. It is observed that it is uncertain to complete the targeted 24 percent physical progress within the next 12 months when the project is to be completed.	Agree with observation. Action plans have been prepared to achieve 100 percent progress by the end of 2025.	The activities of the project should be completed within planned time frame.

3.2 Contract Administration

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The CSIAP project had signed a contract worth Rs.26,567,926 with a private construction company on 24 August 2022 for the rehabilitation of the Siyambalagaswewa Reservoir in the Komari area of the Ampara district. As per contract, although the renovation task was supposed to be completed before 23 February 2023, the renovation task was not completed until 15 March 2024 and late fees had not been charged for exceeding the contracted time. It was also observed that water was leaking from certain places in the constructed dam.	Agree with observation. The Extension of Time has been given 4 times until 10.08.2024 on the recommendations of Implementing Agency (IA) without application of Liquidated Damages (late fees) based on justifications found by the IA. The Contractor has been informed to attend all defects in the tank and to hand over them to the IA.	The development work of the project should be done within the stipulated time.
(b)	When placing an order to purchase 487,500 kg of organic fertilizer from a private institution on 20 September 2022 by the Uva Provincial Deputy Project Director's Office of the project, steps had not been taken to obtain confirmation of the quality of the fertilizer. The organic fertilizer supplied to the Thelulla Agrarian Service Area had been rejected due to substandard quality. 366,826 Kg of fertilizer was distributed in the Buttala and Wellawaya Agrarian Service Areas, but the packages were not included details such as the name and address of the manufacturer, nutrient composition or batch code. Rs.10,729,631 which is 65 percentage of the value due had been paid for the substandard organic fertilizer supplied. It is observed that this payment was a useless expenditure.	Agree with observation.	Quality fertilizer should be supplied to the farmers.
(c)	The Uva Provincial Deputy Project Director's Office had entered into an agreement with a private construction company on 06 January 2022 for the renovation of the Pelassa Tank located	Agree with observation. CSIAP Uva has submitted the payments to PMU deducting liquidated damages on the	The activities of the project should be completed within planned time frame and Late fees should

	in Gonagan Ara Grama Niladhari Division of Buttala Divisional Secretariat in Monaragala District. By October 2024, the relevant contract company had abandoned the renovation of the Pelassa Tank and actions had not been taken to charge late fees from that company and cancel the contract.	recommendation of DAD.	be charged.
(d)	Rs.9.792 Mn has been paid for the removal of silt and reconstruction of the tank embankment of the Samaguliya Tank in the Hambantota District and Rs.38.92 Mn remains from the contracted amount. With that remained fund, 9 agro roads in the Julpallama Grama Niladhari Division outside the area where the Samaguliya Tank is located which belongs to the Department of Provincial Irrigation were renovated. The estimated cost for the reconstruction of the agricultural road was Rs.37.526 Mn and it was included as an additional part of the tank and the estimates were prepared for the reconstruction of the road located outside the Samaguliya tank. Accordingly, the uncertain cost variation of the Samaguliya Tank had increased up to 65 percent. That variation had exceeded the approved limit of the Project Director. Accordingly, the project officials had acted in violation of the contract agreement and had expensed foreign loan funds in a manner contrary to the project objectives.	Agree with observation. It had been decided to appoint a committee to examine and make recommendations relating captioned matter and we already received the committee report. Further actions according to committee recommendation will be taken in DPD office level after approve the committee report.	Contract conditions should be followed.

3.3 Observations made on site visits

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The CSIAP project had entered into a contract with a private company on 21 October 2022 for the renovation of the Alayadi tank in Batticaloa District. As per the contract, although the	Agree with observation. The observed defects (works not up to the standard and leakage close to sluice etc) had been	The activities of the project should be completed within planned time frame.

	renovation task was to be completed by 17 October 2023, it had not been completed until 14 March 2024. Some constructions were not up to standard and water leakages were observed near the sluice gate.	rectified by the contractor, before the actual date of completion.	
(b)	In the renovation of Dehiattawala Wewa, Unagollewa Wewa, Moragaswewa and Kadapatha Wewa under Contract worth of Rs.210,321,170 which was done from the provision of the Climate Smart Irrigated Agriculture Project, although the contract period has expired by March 2024, steps had not been taken to extend the contract period. Although the soil cannel that carries water from the sluice of Dehiattawala wewa to the paddy fields had been completed, the dam of the soil cannel had been extensively washed away by the rain and destroyed and the farm turnout structure had broken and been submerged in water. Furthermore, although the term of this contract had expired on 8 February 2024, the Dehiattawala tank dam, Unagollawa tank dam and Kadahatha tank dam had not been renovated using soil and gravel and construction work had been ceased by March 2024.	Agree with observation. Extreme weather conditions prevailed in that area during the contract period, and as a result, the constructed earth canal was washed away.	The activities of the project should be completed within planned time frame.

3.4 Underutilized Resources

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	When considering the progress of utilization of funds as at 31 December 2024, it was observed that the project utilized only USD 62.37 Mn funds from USD 110 Mn of total allocation by the WB/IDA Loan. As a percentage, it was 56.7 per cent. Therefore, the utilization of funds is ineffective when considering the rest of one year time period with balance funds.	The observation is correct	Tasks of the project Should be completed within planned time frame and funds should be utilized efficiently.

(b)	Although total agreed contribution of government of Sri Lanka for CSIAP is Rs.2,820 Mn, but the cumulative use of government fund as at the year under review was only Rs.1,775 Mn and it is equivalent to 63 percent of agreed amount. The use of remaining 37 percent of agreed government fund in next year is uncertain.	Rs.1,775 Mn is carried forward to the year of 2025/2026 from this amount. Out of this 1,775 Mn, a certain amount will be spent for winding up of project activities. However, Rs. 295 Mn has been spent by the project as of May 2025.	Tasks of the project should be completed within planned time frame and funds should be utilized efficiently.
(c)	The amount of Rs.30,946,351 of commitment fee has been paid during the year of 2024 for the undisbursed balance of US$ 30, 050,660.35 as at 31 December 2024.	Agree with observation	Funds should be utilized efficiently.
(d)	In 2021, a provision of Rs.233.3 Mn was allocated through the Project for the purchase of laboratory equipment and laboratory consumables such as laboratory regents chemicals and laboratory glassware required to measure the quality of compost fertilizer for 06 identified agricultural laboratories. The Kejeldhal System Complete within digester distillation unit, Scrubber Pump tiltroter and tube and Steriliration oven, muffle furnace equipment sets purchased by spending Rs. 14,088,232 from that provision had been provided to the soil science laboratory of the Ampara Inter-Provincial Deputy Director of Agriculture. Due to unsafe storage of the above machines, they had been destroyed by rats and had become unusable. The fund spent had been wasted due to the fact that the need for those machines was not identified and they were donated to institutions that did not have the need.	This equipment was purchased by the project under the organic fertilizer promotion program implemented by the previous government. The equipment has been formally handed over to the Deputy Director of Agriculture in Ampara. They are responsible for the safe storage and use of those equipment for organic agriculture programme. As pointed out in the audit observation, that responsibility has not been fulfilled so far. Therefore, I will take immediate action to rectify that matter.	Instruction should be given to proper and safely storage of assets.

3.5 Matters in Contentious Nature

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The quotations for the purchase of 15,000 Kg of turmeric seeds were called on 22 April 2021 and the bids were opened on 02 May 2021 and submitted to	Agree with observation.	Procurement Guidelines should be followed.

	the Technical Evaluation Committee. The recommendations of the said committee were received on 09 May 2021 and based on that recommendation, the Procurement Committee met again on 10 May 2021. The members of the said committee took the decision regarding the purchase of the turmeric seeds on that day and sent a purchase order to the supplier on 10 May 2021. The Deputy Director (Uva) of the project had paid Rs. 2,927,300 for the purchase of the turmeric seeds. It was observed during the inspection of the turmeric seed distribution documents that a large quantity of turmeric seeds had been distributed to the farmers on the date of award of the turmeric seed order, i.e., 10 May 2021. The approval of the Project Director for the purchase of turmeric seeds had been received in September 2021, but the Deputy Project Director (Uva) had signed the turmeric seed purchase agreement on 10 May 2021.		
(b)	Project had not identified the need for drones. Rs.2,242,000 was paid to the contractor for obtaining maps based on drone technology which was not included in the contract signed for the rehabilitation of the Punchiappu Jandura Tank in the Hambantota District. But these maps had not been received. However, the Southern Provincial Irrigation Director had approved the payment of Rs.2,242,000 to the contractor without obtaining of the drone maps.	We have already informed to the Provincial Director of Irrigation, Southern Province to submit a detailed report related to said affairs. We wish to furnish all related clarifications promptly after receiving the report.	Action should be taken against relevant officers who paid to the contractor without obtaining drone maps.
(c)	Under the Contract No. LK-MOA-373009-GO-RFQ-SP, the Technical Evaluation Committee had not considered that stating the length of the nets as 100 m instead of 150 m and the warranty period as 3 years instead of 5 years when purchasing agricultural protective nets. Further, the specifications regarding to purchasing 40 polythene mulch indicated that there should be a sticker containing the supplier's details on the product supplied and any manufacturing defects in the equipment during the warranty period should be rectified at the own cost by the supplier had not been considered by the Technical Evaluation Committee.	We accept some deficiencies are exist in the specifications; Deputy Project Director Office, as the procuring entity, confirm that to take immediate corrective actions to implement a better and advanced manner in preparation and approving the specification for good procurements.	Action should be taken to prevent errors in bidding documents.

(d)	Among the consultants recruited for the Climate Smart Irrigated Agriculture Project, the Senior Engineering Consultant (Monthly Allowance Rs. 190,000), Mee Oya Engineering Consultant (Monthly Allowance Rs. 110,000), Yan Oya Engineering Consultant (Monthly Allowance Rs. 110,000), Thirappane Farmer Training School Coordinator (Monthly Allowance Rs. 160,000) were recruited without interviews and were recruited only by reviewing the CVs through a procurement committee in which the Project Director participated. Accordingly, the Project Director had acted disregarding the instructions in Chapters 4,5,6,7,8 of the Consultant Procurement Guide Line.	The observation is correct. The services of all officers have been terminated	Consultant Recruitment should be done according to the consultant procurement guideline.