Strengthening Climate Resilience of Subsistence Farmers and Agricultural Plantation Communities residing in the vulnerable river basins, watershed areas and downstream of the Knuckles Mountain Range Catchment of Sri Lanka Project - 2024

The audit of financial statements of the of Strengthening Climate Resilience of Subsistence Farmers and Agricultural Plantation Communities residing in the vulnerable river basins, watershed areas and downstream of the Knuckles Mountain Range Catchment of Sri Lanka 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 provisions in the Section 5.16 Implementing Agreement dated 19 August 2022 entered in to between the Ministry of Agriculture, Livestock, Land and Irrigation then Ministry of Irrigation and International Union for Conservation of Nature and Natural Resources (IUCN). 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 Agriculture, Livestock, Land and Irrigation then Ministry of Irrigation and International Council for Research in Agroforestry (ICRAF) are the Executing and implementing Agencies of the Project. The objective of the Project to strengthen the climate resilience of subsistence farmers and agricultural plantation communities in vulnerable river basins, watershed areas, and downstream regions of the Knuckles Mountain Range Catchment by improving farm and land management practices, enhancing water security, and safeguarding ecosystems to mitigate climate-related risks. The activities of the Project are implemented under four components namely Climate-Resilient Sustainable Land Management, Secure Financing Mechanisms for Sustainable Land Management, Institutional capacity strengthened and Project management. As per the Grant Agreement, the estimated total cost of the Project was US$ 48.98 million equivalent to Rs. 15,672. million and out of that US$ 39.78 million equivalent to Rs. 12,729 million was agreed to be financed by Green Climate Fund (GCF). The balance amount of Rs. 9.2 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 23 August 2023 and scheduled to be completed by 16 January 2029.

1.3 Disclaimer Opinion

Because of the significance of the matters discussed in the paragraph 2.1 of this report, I do not express an opinion on the accompanying financial statements of the project.

1.4 Basis for the Disclaimer of Opinion

I do not express an opinion based on the matters described in the paragraph 2.1 of this report.

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 have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 determines as 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 paragraph 2.1 of this report, I was not able to obtain sufficient and appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiency/ Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendation
(a)	According to the funded activity agreement the Green Climate Fund (GCF) agreed to provide USD 39.18 million equivalent to Rs.12,729 million to the project and the GCF had disbursed USD 10.5 million equivalent to Rs. 3,444 million to the International Centre for Research on Agroforestry (ICRAF) for the purpose of project expenditures. However, the expenditure for the project activities carried out by ICRAF had not been recorded in the financial statement. Since the financial statements had been prepared only for the amount disbursed to the Project Management Unit (PMU) which represent 73 percent of the total	3,444	The financial statements and expenditure reports relating to the USD 10.5 million received and utilized by ICRAF are audited under the supervision of IUCN, with the audit carried out by Ernst & Young (EY) Auditors, in accordance with the financial management and audit requirements stipulated under the GCF framework. Accordingly, the expenditures incurred by ICRAF are subject to an independent external audit process through the Accredited Entity's established audit arrangements. Therefore, these expenditures are reviewed and verified	The project should prepare the financial statements for the total Grant amount.

	disbursement and, audit scope was limited to the activities carried out by the PMU.		separately and are not included in the financial statements of the GCF Knuckles Project.	
(b)	The previous year closing balances of assets and liabilities had not been brought forward as the opening balances of the year under review. As a result, the value of non-current assets and equity had been understated by Rs. 26.46 million.	26.46	It is acknowledged that this balance was not carried forward as an opening balance.	Action should be taken to account the balances.
(c)	According to the audited financial statements of the Mahaweli Consultancy Bureau for the year 2024, a balance of Rs. 33.59 million had been shown as due from the project, but no balance had been shown as payable to the Bureau in the project financial statements.	33.59	As the Mahaweli Consultancy Bureau requires a certain period of time to report the expenses incurred to the project, such differences may arise.	Action should be taken to reconcile the balances.
(d)	A difference of Rs. 18.39 million was observed in respect of expenditure component 1,2 and 3 shown in the expenditure reports and the ledger accounts.	18.39	Differences may arise between the ledger and their expenditure reports.	Action should be taken to reconcile the balances.

2.2 Non Compliance with Laws, Rules and Regulations

	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Paragraph 92 of the project document	A project board should have been established to make decisions relating to project operations.	Comments had not been received.	Project Board should be established.

(b)	Risk Management Circular No. DMA/1/2024 dated 21 June 2024 issued by the Department of Management Audit	Risk Management Committees had not been appointed for the project.	Steps have been taken to initiate the appointment.	Project Risk Management Committee should be appointed.
(c)	National Budget Circular No. 01/2024 dated 10 January 2024			
(i)	Section 5.2	It was observed that a sum of Rs. 6.11 million had been incurred for training programs during the year under review contrary to the circular instructions.	As this was carried out by the implementing partner MCB, the relevant information should be obtained directly from them.	Strictly adhere to the National Budget Circular.
(ii)	Section 6	Officials should not participate in foreign studies, training, discussions, conferences, or travel unless the full cost is borne by foreign donor agencies. However, contrary to this provision, the Project Director participated in the IRRDB Workshop on Carbon Trading and Climate Change held in Malaysia from 21 to 27 April 2024, with an expenditure of Rs. 1,483,879.60 incurred from the project fund.	At that time, other officials of the Ministry were engaged in foreign travel. Funds allocated for foreign training from the Project's main budget were utilized for this purpose.	Follow National Budget Circular instructions.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

	Audit issue	Response of the Management	Auditor's Recommendation
(a)	According to the Project Document, it was planned to implement activities amounting to USD 1,458,504 during the first year and a cumulative amount of USD 14,878,965 by 31 December 2024. However, as at 31 December 2024, the expenditure incurred amounted was Rs. 437,551,232, equivalent to USD 1,414,358. This represented 9.8 percent of the expenditure expected up to 2024.	Due to the shortage of human resources and the delay in receiving imprest funds from the Treasury, the implementation of project activities was delayed during the reporting period.	Action should be taken to accelerate project activities.
(b)	The Department of Agrarian Development, the Department of Export Agriculture, the Provincial Department of Agriculture, and the Mahaweli Authority of Sri Lanka had been identified as key stakeholders. In Action Plan, it was planned to allocate Rs.907.02 million and although a sum of Rs 264.9 million had been disbursed to these institutions during the year 2024, an amount of Rs.77 million had been refunded to the project as at 31 December 2024 due to the failure to carry out the agreed activities as stipulated.	At the initial stage of the project, funds were disbursed to the implementing partners to initiate activities.	Action should be taken to strength coordination and communication mechanisms among all stakeholders.
(c)	Even though the Mahaweli Consultancy Bureau (Pvt.) Ltd. had been selected as Service Provider for project activities, funds had been released to the Bureau without an approved works and adequate supervision. During the year under review, a sum of Rs. 128.83 million had been disbursed to the company for the implementation of various activities, of which Rs. 95.24	MCB provides consultants and other staff members to the project as and when requested by the project management.	Project fund should be utilized effectively.

	million had been expended, while a balance of approximately Rs. 33.59 million remained unutilized as at 31 December 2024.		
(d)	The project objectives had been planned to be achieved through three main components, namely improving land and water management, establishing financial sustainability, and strengthening government support. However, as at 31 December 2024, the overall physical progress of the project had been reported at a very low level of 6 per cent.	Stakeholder government institutions also indicate that they do not have adequate staff to manage the additional project workload. For these reasons, it has become very difficult to achieve the expected level of progress	Action should be taken to strength coordination and communication mechanisms among all stakeholders.
(e)	The Sri Lanka Mahaweli Authority had been selected as a key stakeholder institution under the Knuckles Project, and although an amount of Rs. 126.12 million had been approved for project activities in the year 2024, only Rs. 37.18 million of that amount had been spent during the year under review. As at the date of audit, a Memorandum of Understanding had not been signed between the Project and the Authority. Furthermore, in order to achieve the objectives of the Project, the Authority had not conducted a baseline study, to understand long-term information on matters.	51 baseline studies have already been completed. The procurement process to commence 450 new baseline studies is currently ongoing	Action should be taken to expedite the implementation plans.
(f)	For the implementation of programs in the 2024, the project had provided a sum of Rs. 37.60 million to the Elkaduwa Plantation Company in three installments. As at the audit date of 07 October 2025, an amount of Rs. 25.38 million had been spent, leaving a balance of Rs. 12.22 million Accordingly, although one year of the project period had elapsed by the audit date, 32 percent of the funds provided for the year 2024 for the project remained unutilized.	There was the change of the top management of the company. However, after July 2025 it was observed that the project activities slowdown compared to initial phase of implementation.	Action Should be taken to achieve the expected target with in the time frame.

3.2 Vehicle Utilization

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The project had incurred expenditure amounting to Rs. 35 million on vehicle hire during the years 2023/2024, and the vehicles had been obtained both directly and through the Mahaweli Consultancy Bureau (Private) Limited. During the audit, it was observed that the company selected for the supply of vehicles did not possess the required capacity, experience, personnel, or physical resources, and that it also did not have a procurement division. Further, the vehicles had been hired without obtaining Treasury approval and without following the National Procurement Guidelines.	However, prior to the completion of this procurement process, the project received vehicle services from MCB, this arrangement was consistent with the role of MCB as a Service Provider, and ensured continuity of project operations in line with the Project Document.	Conduct an investigation on procurement process and identify responsible officers who violate Procurement Guidelines.
(b)	The project had hired various types of jeeps on a rental basis and had obtained a Toyota Prado SUV with an engine capacity of 3000cc from private company at a monthly rental of Rs. 920,000 (inclusive of fuel), paying a total sum of Rs. 7,106,880 From October 2023 to April 2024, This vehicle had been assigned to the Project Director, and a fuel allowance of Rs. 59,235 had also been paid to the said officer for the month of October 2023. In procuring this vehicle, the Procurement Guidelines had not been followed, and no agreement had been entered into between the project and company in respect of the vehicle hire.	Accordingly, the project has been received these services from MCB in line with the terms outlined in the project document.	Conduct an investigation on procurement process and identify responsible officers who violate Procurement Guidelines.
(c)	The agreement made between the MCB and Vehicle supplier did not specify the types of vehicles, their quantity, or the monthly rental amount required for the project,	At that time, the project was required to immediately prepare the Project Inception Report and the Baseline Survey Report. Based on this	Requested vehicle details should be submitted to Audit.

Audit Issue	Response of the Management	Auditor's Recommendation
stating that these would be decided by the company. Under the agreement, the vehicles provided were required not only for project work but also for the company's daily office operations, other projects, and the work of the ministry/chairperson's office. The invoices submitted by vehicle supplier included only details such as distance traveled, overtime hours, and night-time hours, but did not provide the specific locations traveled on the relevant days. Therefore, it could not be confirmed that the vehicles were used solely for the project work. As a result, vehicle rental payments amounting to Rs. 6.64 million in 2023 and Rs. 18.16 million in 2024 could not be recognized in the audit as expenses incurred exclusively for the project.	urgent requirement, and considering operational needs, the project hired vehicles through MCB, namely two (02) cabs, one (01) van, and one (01) jeep. Further, in 2024, in order to accelerate the implementation of project activities, the project requested two (02) additional cabs from MCB.	

3.3 Issues Related to Human Resource Management

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	At the commencement of project operations, even the minimum staff required to make the project functional had not obtained approval from the Department of Management Services. By November 28, 2025, more than two years after the project started, the Project Director and Project Accountant positions had been recruited on an acting basis, while the Deputy Project Director and Project Secretary positions had not been directly recruited through the project but had been handled via the State owned Company, Mahaweli Consultancy Bureau (Pvt) Ltd. Furthermore, the positions of Procurement Specialist, Monitoring and Evaluation Officer, and Technical Officer remained vacant.	Although approval had been obtained from the Department of Management Services, recruitment for the relevant positions was carried out in three phases, based on the need to fulfill the duties assigned to those positions for the initial establishment of the project.	The project should obtain formal approval from the Department of Management Services for the required staffing structure without further delay. And action should be taken to expedite the recruitment of key positions on a permanent basis.

(b)	According to Clause 2.3.2 of the 2019/01 Management Services Circular, a Project Director should have been appointed to the project on a full-time basis; however, this had not been implemented. Instead, an officer serving as Additional Secretary (Land and Legal) in the Ministry of Irrigation had been appointed as Acting Project Director from August 1, 2023, to July 31, 2024. As of the audit date, November 28, 2025, a full-time Project Director had still not been appointed, and the officer had continued to perform duties on an acting basis.	At present, interviews for the position of Project Director have been conducted by the Project Personnel and Progress Management Unit (PPM) of the Ministry of Irrigation.	Comply with the circular instructions.
(c)	While the Project Office had been clearly guided by the Project Document and Management Services Circular 01/2019 dated March 15, 2019, regarding the staff recruitment procedure and their remuneration, and while the staff for the project had already been approved by the Management Services Department, prior approval from the Management Services Department was required for any additional staff recruited beyond the approved project staff. According to Clause 2.1.1 of the Circular, instead of recruiting staff directly to the project, the project had recruited individuals for various positions through Mahaweli Consultancy Bureau (Private) Company, thereby deviating from the directions of the Circular. According to information made available for audit, by December 31, 2025, a total of 87 officers recruited in this manner had been paid salaries amounting to Rs 120.3 million.	Recruitment was carried out after assigning specific duties, and the service period was extended based on service requirements. As stated in the Project Document, the Mahaweli Consultancy Bureau has been designated for obtaining consultancy services. Accordingly, consultants identified for consultancy services were appointed by following the procedures adopted by the Bureau.	Comply with the circular instructions.