

## **Climate Mitigation Action Support Project - 2020**

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The audit of financial statements of the Climate Mitigation Action Support 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 Article II, Section II (A)(a) of the Grant Agreement No. TF0B0017 dated 11 of April 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development. 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**

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According to the Grant Agreement, the Ministry of Environment is the Executing and Implementing Agency of the Project.

The objectives of the Project are to strengthen the Recipient's capacities and systems to implement national climate change policies, strategies and actions and design or strengthen market non-market mitigation instruments.

As per the Grant Agreement, the estimated total cost of the Project was US\$ 1.8 million equivalent to Rs.315 million and was agreed to be financed by International Bank for Reconstruction and Development.

The Project had commenced its activities on 11 April 2019 and scheduled to be completed by 28 February 2021.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Basis for Opinion section of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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**

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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 Accounting Deficiencies

<b>Accounting Deficiency / Audit Issue</b>	<b>Amount Rs.</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
All expenses incurred on behalf of the project should have been stated in the statement of financial position of the project but had not been act upon	38,110,000	Further study will be done and further action will be taken in this regard.	All project related expenses should include in statement of financial position

### 2.2 Non Compliance with Laws, Rules and Regulations

<b>No</b>	<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
i.	Cabinet memorandum 63/2018 dated October 2018 and cabinet decision dated 14 November 2018	Project unit should be staffed by including full time officers of the Ministry. But it was observed that the project staff had recruited from the outside the Ministry.	Although it has been stated that the project unit should be consisted by a staff including full time staff of the Ministry based on the need for in-depth technical and expertise in the subject of this project, it has to be referred to a project management unit consisting of outsourced officers as required by the World Bank.	Should act according to cabinet decision.
ii.	Circular no 01/2019 of the Finance Ministry dated 15 March 2019 paragraph no	The appointment of committees for this project took place on 03 May 2019 and committee meeting	Although the appointment of the Project Steering Committee could have been made within the	Should conduct the meeting and review the performance as required by the circulars.

09 and the circular no MOFE & PD/ERD/2020/01 of the Ministry of Finance, Economic and Policy Development Paragraph 5 and foreign grant agreement schedule 2 and paragraph 2. has held only on 05 May 2020. stipulated time, the holding of the relevant meeting session had to be postponed until a suitable officer was appointed to the post of Project Director as the representation of the Project Director of the relevant project was essential for the holding of the Steering Committee meeting.

- iii. Circular no MOFE & PD/ERD 2020 of the Ministry of Finance Economic & Policy Development dated 12 February 2020 Although the Chief Accounting Officer should ensure that the provisions of the budget estimate are utilized for the relevant purpose, the amount utilized by the project as at 31 December 2020 was Rs.39,225,901. Accordingly, the financial performance of the project at the end of the year was 39.41 percent only. Although the revised total allocation for the relevant year is Rs.99,531,000 It had to remove the three main components from the project at the end of the year. Therefore, the amount utilized as at 31 December 2020 was around Rs.39,225,901 Should take actions to achieve the expected project objectives.

**3. Physical Performance**

**3.1 Physical progress of the activities of the Project**

Component	Activity	As at 31 December 2020		Audit Issue	Response of the Management	Auditor's Recommendations
		Expected physical performance	Performance achieved			
		Percentage	Percentage			
2.2	Deliver Sector Wise Training for Monitoring, Reporting and Verification (MRV) System and Sri Lanka Carbon Registry (SLCR)	100	20	Lower progress level observed	All the necessary procurement work was completed up to the stage of selecting an accredited institution to provide the advisory services. However, in order to implement it, the advisory services should be commenced. However, due to several reasons this consultation service also could not be completed. Therefore, the expected progress could not be achieved.	Should take actions to achieve the expected project objective.

2.2	Deploy, Customize, Pilot and Maintenance of Monitoring, Reporting and Verification (MRV) System and Sri Lanka Carbon Registry (SLCR)	100	10	Lower progress level observed	All the necessary procurement work was completed up to the stage of selecting an accredited institution, the Procurement Committee recommended that a re-statement of intent be called for the consultancy services. However, the World Bank advised not to implement this advisory service as it is not practical to do so within the limited time available. As a substitute for this, the World Bank has proposed to establish two MRV and Registry systems in Sri Lanka, developed for countries where PMR (Partnership for Market Readiness) is currently in operation, and to be tailored to the needs of Sri Lanka, as decided by the World Bank	Should take actions to achieve the expected project objective.
–	Cumulative financial progress of the project.	100	12.45	Lower level of cumulative financial progress	The year 2020 was the year in which most of the activities were to be implemented out of the time proposed to implement this project. Accordingly, the relevant action plan was prepared. But the Covid-19 epidemic in the country had a major impact on achieving that goal. Due to this, all the activities required to obtain counseling services could not be carried out within the planned time.	Should take actions to achieve the expected project objective.

### 3.2 Idle/ Unutilized/ Underutilized Resources

**Audit Issue**

**Response of the Management**

**Auditor's Recommendation**

Thirty eight computers out of the 55 computers purchased on 29 December 2020 had been distributed to the planned institutions and remaining seventeen computers were retained in the project until by 05 August 2021. However all the computers cannot utilise without the technical support and those were idle at the date of audit.

The distribution of these computers were scheduled to be prioritized and distributed based on the amount of data provided by the 55 data providing institutions. However the National Climate Change Data Sharing Network was to be completed at the end of February, and it took a long time to conclude agreements to provide it and to train the relevant stakeholders on these systems. Accordingly the required coordination was being made for the distribution to 38 identified institutions had been completed by 22nd April 2021 and the remaining 17 computers were required to be distributed among the designated institutions. Therefore, I further inform you that they will be distributed as soon as possible after the conclusion of the agreement.

Take quick and efficient actions to utilize the resources for their purpose

### 3.3. System and Controls

**No**

**Audit Issue**

**Management Response**

**Auditor's Recommendations**

i. The cash book had not been systematically and properly maintained

I will rectify the existing shortcomings and maintain the cash register systematically.

Should maintain the cash book accordingly.

ii. The inventory book was not properly maintained

The actions were taken to list the particular devices in the inventory book separately.

Should maintain the inventory book properly.

iii. Financial and physical progress of

Although the total funding for the project is US \$ 3 million and US \$ 1.2

Should disclose about the world

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| <p>the us \$ 1.2 million directly financed by the bank relating to the project has not been disclosed in the accounts</p> | <p>million under the World Bank and US \$ 1.8 million under the Government of Sri Lanka, has been contracted. As the preliminary studies related to the implementation of the physical components completed by the Project Management Unit of the Government of Sri Lanka are completed under the World Bank component, the World Bank was constantly updated on the physical progress and the relevant accounting activities were maintained by the World Bank.</p> | <p>bank portion of the project.</p>          |
| <p>iv. No assets verification had been conducted for the project in year 2020</p>   | <p>As the end of 2020 was the period of completion of the project, there was not enough time to conduct a product survey and the project did not have enough staff to complete the project. However, as the project is nearing completion, the actions are being taken to appoint a committee to hand over the assets to the Ministry.</p>   | <p>Should conduct the asset verification</p> |