

Climate Resilience Multi-Phase Programmatic Approach Project - 2023

The audit of financial statements of the Climate Resilience Multi-Phase Programmatic Approach Project Project 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 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 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 are the Implementing Agency of the Project. The objectives of the Project is 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. 27,900 million and out of that US\$ 92 million equivalent to Rs. 27,600 million was agreed to be financed by International Bank for Reconstruction and Development (IBRD).The balance amount of Rs. 300 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, accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, 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 Accounting Deficiencies

Accounting Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
The Commitment charges amounting to Rs.72 million and loan interest	105	The audit has indicated that Parity adjustment and Interest & Commitment fees should be included	The Commitment charges and loan Interest should be accounted as project

amounting to Rs. 33 million charged by the International Development Association during the year under review had not been disclosed in the Financial Statements. As a result, project expenditure shown in the financial statement had been understated by Rs. 105 million.

in the accounts for the year 2022 too. expenditure. Accordingly, the final accounts presented were withdrawn and Parity adjustment was accounted and Interest & Commitment charges were disclosed under accounting policies as a separate note. Since the interest and commitment fees are not directly related to the project expenses, those expenses were included in the treasury accounts and it was disclosed as a separate note.

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)	Project Appraisal Document, section 3 of Annex 5	The PMU may be prepare a detailed implementation plan in line with the detailed project budget and clearly specify the funding requirement for each activity. The Project had not been prepared a detailed budget for the year 2023 accordingly.	As per the original project design, detailed cost sheets were prepared for all project components during the preparatory stage of the program. However, the finalization of detailed activities for component 1 was not completed as the finalization of sub-activities depended on the hiring of international consultants for the service expected by each Implementing agency.	A detailed implementation plan in line with the detailed project budget should be prepared by the PMU.
(b)	Management Audit Circular No. DMA/2009 (2) dated 01 September 2009	A Fixed Assets Register in General 287 format had not been maintained.	The general 198 inventory register is used to keep records of the fixed assets of the project. The relevant officers were given instructions to use stock register No. 287 instead of General 198 inventory.	Actions should be taken to maintain a Fixed Assets Register in General 287 format.
(c)	Management Audit Circular No. DMA/1/2019 dated 12 January 2019	Although it is necessary to hold at least four audit and management committee meetings per year, the project had not been done accordingly.	The arrangements will be made to hold all 4 meetings as specified in the circular in future.	Audit and management committee meetings should be held as per Management Audit Circular

(d) 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 properly as per loan agreement.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2023		Delay/ Audit Issue	Reasons for delays	Auditor's Recommendations
		Expected physical performance Units/ percentage	Performance achieved Units/ percentage			
(a) Component 01	Forecasting and Early warning of high Impact Weather, Floods and Landslides.	90	50	Project had been failed to achieve expected performances as per the action plan approved. The Financial Performance achieved was only 29.7 percentage.	As required staff positions for the Implementing Agencies under the project were not approved by the MSD until January 2024, the preparation of Terms of Reference (TOR), specifications, tender documents and required documents was delayed substantially due to the shortage of staff in the IAs.	Actions should be taken to complete the all activities under each components as planned.
(b) Component 02	Construction of Ambathale salinity	63	32	The project had been failed to construct the	It was assumed that design review and supervision	-do-

barrier and preparatory studies

Ambathale salinity barrier and achieved physical performance of the activity as per the action plan. consultancy could be awarded by mid-2023 when budget estimates were developed and submitted to the treasury in mid-2022. Therefore, a sufficient budget was allocated for paying for the consultant deliverables and also to pay a mobilization advance for a contractor for the construction work which was planned to be awarded by the latter part of 2023.

(c) Components 01,02,03 and 05 Forecasting and early warning of high impact weather floods and landslides, Construction of Ambathale salinity barrier and preparatory studies, Improving climate resilience and maintenance of Irrigation and storm water infrastructure. 81

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Although total estimate for the project was Rs.2,025 million, only Rs.601.2 million had been spent during the under year review. Accordingly, the overall financial progress of the project was 29.68 percentage.

As explained, due to not granting approval for recruiting staff for the PCT, approval not being granted to create the staff positions for IAs, not allowing the hiring of international consultants for major technical areas such as modernization of the Hydrometeorological network of the DOM, hiring of design and supervision consultant for developing a final design for construction of the salinity barrier, hiring an international consultant for developing the detailed design for Wee Oya reservoir, and hiring of a consultant for developing disaster preparedness and response system of the Disaster Management Center and not

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allowed to award major construction work due to shortage of materials and un president level of price escalation of construction materials due to high fuel prices are accumulated for the delay of implementation of planned activities in 2023, thus disbursement and physical progress were not achieved as expected.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
Although the financial performance of the project at the end of the year under review was stated as Rs. 601.2 million in the financial statements, a cash advance amounting to Rs. 97.19 million given to the Department of Irrigation which is the implementing agency of the project under component 5 had been included it.	As mentioned Rs. 601.2 million, was disbursed for the project activities and it was presented in the financial performance statement. The funds for the contract packages executed by the Irrigation Department under component 5 have been released to the District Irrigation Offices for the amount equivalent to the part-payment bills processed and forwarded to the PCT through the Head Office of ID for CP, RFQ and advance payment for DC packages.	Necessary action should be taken to complete the project activities within the relevant period, and to the advances immediately

3.3 Observations made on site visits

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Irrigation department and Project Coordinating Unit had been plan to carry out urgent repairs to the large, medium and small irrigation systems, covering all 25 districts, with the direct involvement of farmer organizations and the participation of rural and local officials. Accordingly this project had been planned to carry out at a cost of US\$ 15 million in a period of 18 months.		

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| <p>(i) However after 11 months only US\$ 1.113 million had been spent by the end of the year under review. Accordingly, the financial performance of the project was only 7.42 percentage and should be achieved 92.58 percentage of the identified balance works within next 7 months.</p> | <p>The component-5 was activated on 28th May 2023 and until such time preparatory work was carried out by the ID for finalizing the field investigation, and preparation of drawings and estimates. However, the tendering process was not started until the activation of the project and sample tender documents and related guidelines were developed and cleared by the bank in July 2023. Therefore, implementation progress has a sufficient time period up to December 2024 to complete the contract awarding and completion of construction during this period.</p> | <p>Necessary action should be taken to complete the project activities within the project period</p> |
| <p>(ii) 69 contract packages which valued at Rs. 87 million had been awarded to the farmer organizations under the supervision of the Irrigation Department during year under review. However, according to the field inspection conducted in Batticaloa and Ampara area, it was revealed that most of the constructions were done by other parties due to not having proper supervision of the project. However the primary objective which was "to assist poor communities to improve their livelihoods by supporting the reformation of their canal system", had not been fulfilled.</p> | <p>As per the proposal developed by the PCT, it was planned to empower the FO by technical officers of the ID to support them to take leveling, measurement, preparation of bills and implementation of ESCOP to ensure social and environmental Safeguards. However, the implementation is the responsibility of the FO for the CP packages. If any deviations are found in this regard necessary corrective measures will be taken by giving instructions to the respective technical officers through the Director General of Irrigation.</p> | <p>Necessary action should be taken to supervise the activities as planned manner. If is there any irregularities, actions should be taken against the relevant officials.</p> |

3.4 Idle/ Unutilized/ Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(i)	Although Rs.2,025 million had been allocated under the annual estimate for the project for the year 2023, only Rs. 601.2 million (29.69%) had been utilized. Due to not having proper attention towards fulfill the planned activities within the planned period, the percentage of 70.31 percentage of the allocation had not been utilized during the year under review.	A provision of 2,025 million rupees was allocated for the project through the budget estimates with the expectation to implement the work plan developed and submitted to the budget department in 2022. As mentioned, there was very slow progress of the project activities during the year 2022 as well as 2023.	Actions should be taken to complete the all activities under each components as planned, and to utilize the funds within the stipulated period properly.
(ii)	Although US\$ 92 million were allocated to implement the project within 5 years period, only US\$ 2.23 million (2.5%) had been utilized during last two years	As mentioned, the financial progress of the project till 2023 was very low. The above-mentioned issues have been well addressed by the Project management and project implementation has been streamlined to complete the awarding of contracts up to USD 51 million and disbursement of up to USD 19 million as per the agreement reached with the World Bank implementation support mission held in December 2023 and follow up pre-MTR mission held in May 2024.	Actions should be taken to complete the activities within the project period
(iii)	Although a sum of Rs.1,364 million had been received to the project as at 31 December 2023 from International Bank for Reconstruction and Development (IBRD), a sum of Rs.676 million only had been spent during the period. As a result a sum of Rs.785 million had been laid down idly in the account for 7 months without using.	As mentioned, the year-end balance of the Designated Account in CBSL is Rs.784 million. According to the Loan Agreement, an advance amount can be requested to cover the forecasted project expenditure for the next 6 months, which is a facility provided by the World Bank for project management through the Designated Account. Accordingly, at the end of every year, the amount of money required for the next few months remains as a balance in DA.	Funds provided for the project activities should be directed to use for achieving the objective of the project economically.

3.5 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
<p>According to the Annex 2, Section 1 of the Loan Agreement the Project shall upgrade and make operational, not later than six months after the effective date, an operational financial management software acceptable to the Bank had not been prepared. However the project had not paid attention to check the ability to use the accounting software which purchased at cost of Rs.7.4 million under the CRIP project, with relevant charges.</p>	<p>A Management Information System (MIS) including an accounting system was developed for the CRIP project at a cost of Rs.7.4 million which was the one of major requirements agreed upon with the World Bank purely for the project management purpose that has been practice and mandated for all bank funded project.</p>	<p>Accounting software should be used.</p>