

Climate Resilience Multi-Phase Programmatic Approach Project - 2024

The audit of financial statements of the Climate Resilience Multi-Phase Programmatic Approach 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 the Loan Agreement No. 8996 dated 17 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 Irrigation is the Executing Agency and Department of Irrigation, Disaster Management Centre, Department of Meteorology, National Building Research Organization are the Implementing Agencies of the Project. The objective 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 five components namely Forecasting and Early warning of High Impact Weather, Floods and Landslides, Construction of Ambatale Salinity Barrier and Preparatory Studies, Project Management and Implementation Support Activities, Contingent Emergency Response, Improving Climate Resilience and Maintenance of Irrigation and Storm water Infrastructure and project implementation on GOSL. As per the Loan Agreement, the estimated total cost of the Project was US\$ 93 million equivalent to Rs. 18,600 million and out of that US\$ 92 million equivalent to Rs. 18,400 million was agreed to be financed by International Bank for Reconstruction and Development (IBRD). The balance amount of Rs.200 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 12 October 2021 and scheduled to be completed by 31 December 2026.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024, statement of financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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.	Response of the Management	Auditor's Recommendations
According to the project's final financial statements, the fund receipts from the International Bank for Reconstruction and Development (IBRD) was Rs. 1,882.3 million. However, as per the records maintained in the Commonwealth Secretariat Debt Recording and Management System (CSDRMS), the amount recorded as disbursements for the year was Rs. 1,883.3 million. Hence the difference between two balances was Rs 1,023,228.	1,023,228	Information on commitment charges and loan interest was not obtained, and discrepancies with department records are mainly due to parity adjustments.	Project should tally their disbursements with ERD reports.

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 Recommendations
Paragraph 04 of the Management Audit Circular No. 1/2022 dated 07 February 2022.	Although it is necessary to hold 02 Project Internal Audit Review Committee meetings annually for each project under the leadership of the Project Director, the project had not been hold during the year 2024.	Instructions have been issued to avoid such delays in the future.	Circular instructions should be followed.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Components	As at 31 December 2024 Expected physical performance percentage	Perfor mance achiev ed percent age	Audit Issue	Response Management	of Auditor's Recommendation
(a) Overall performance	100%	10.49%	Despite allocating Rs.27,600 million (US\$ 92 million) for the implementation of phase 01 from 2021 to 2026, only Rs. 2,896.42 million (US\$ 9.655 million) (10.49%) had been utilized as at 31 December 2024.	Progress was limited until 2023 due to delays in staff approvals, the COVID-19 pandemic, the national economic crisis.	Action should be taken to utilize loan fund effectively.
(b) Performance for the year 2024.	100%	31.93%	Although Rs. 7,019 million was estimated for the year 2024, it was observed that only Rs. 2241.43 million was utilized, and the underutilization rate was 68.07 percent.	Planned targets were not achieved due to previously noted challenges, leading to reduced financial progress	The Project should be utilized the fund within planned time frame.
(c) Component 01- Forecasting and Early Warning of High Impact Weather, Floods and Landslides.	100%	23.79%	Under Component 01 of the project, an estimated allocation of Rs. 1,503 million (USD 5.01 million) was made for the activities related to Forecasting and Early Warning of High Impact Weather, Floods, and	Under Component 1, consultancy services worth about USD 8 million (Rs. 2,400 Mn) planned through WMO for flood risk management were not finalized due to disagreements over high advance payment requests	Necessary actions should be taken to complete the project activities within the scheduled time period.

Landslides for the year 2024. However, only Rs. 357.55 million (USD 1.196 million) had been utilized by the end of the year. This reflects a financial progress of only 23.79%, indicating significant underutilization of allocated funds. Such low disbursement levels may affect the timely implementation and overall effectiveness of the component's intended outcomes.

(91%, later 52%). The contract was not signed. Additionally, a Rs. 900 million consultancy for modernization of the Meteorological Department faced delays due to objections on technical evaluation.

(d) Component 02 – Construction of Ambatale Salinity Barrier and Preparatory Studies.	100%	6.97%	Under Component 02 of the project, an annual budgetary allocation of Rs.174 million (USD 0.580 million) was made for the Construction of the Ambatale Salinity Barrier and Preparatory Studies during the year 2024. However, only Rs.12.07 million (USD 0.040 million) had been utilized as at year-end. This reflects a financial progress of just 6.93% for the year 2024. Furthermore, as at December 31 of the reviewed year, the cumulative financial progress of this component stood at only 1.15%. Such a low level of fund utilization suggests	Delayed due to the absence of a numerical model for design review and delays in finalizing the DRCS inception report. The DRCS proposed scope changes with cost variations. Progress in 2024 was limited, though measures have been taken to achieve planned progress in 2025.	Loan fund should be utilized effectively.
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significant delays in the execution of planned activities, which may adversely impact the overall timeline and success of the project.

3.2 Underutilized Resources

Audit Issue	Response of Management	Auditor's Recommendation
Due to the underutilization of funds (68.07%), commitment charges for 2024 amounted to Rs. 66.03 million, and the cumulative commitment charges as at 31st December 2024, were Rs. 198.96 million. The project's slow progress has led to unnecessary commitment charges.	Measures are being taken to accelerate project implementation and ensure timely completion.	Project implementation should be accelerated to minimize additional cost.

3.3 Issues related to Human Resources Management

Carder Position	Audit Issue	Response of Management	Auditor's Recommendation
Senior Programme Specialist (MEL) and Procurement and Contract Management Specialist.	According to the Department of Management Services letters, the approved project staff is 32, while only 23 were in post as at 03 April 2025. The key positions of Senior Program Specialist (MEL) and Procurement & Contract Management Specialist remained vacant, adversely affecting project progress. This issue was also highlighted in the World Bank Mid-term Review Mission (17–21 March 2025).	Recruitment was delayed due to government restrictions and the inability to attract qualified applicants for senior posts despite repeated advertisements.	Vacancies should be fulfilled to smooth operation of the project activities.