

Climate Resilient Integrated Water Management Project (CRIWMP) - 2024

The audit of financial statements of the Climate Resilient Integrated Water Management Project (CRIWMP) 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 17.01(b) of the Accreditation Master Agreement dated 05 August 2016 entered into between the Green Climate Fund (GCF) and the United Nations Development Programme (UNDP). 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, the Ministry of Irrigation is the Executing Agency and Department of Agrarian Development, Department of Agriculture, Department of National Community Water Supply, National Water Supply and Drainage Board and Ministry of Disaster Management are the Implementing Agencies of the Project.

The objectives of the Project are support GOSL's vision to increase resilient and enhance the live and livelihood of the smallholder farmers ,particularly women in the dry zone through an integrated approach to water management to safe guard food security, health and well-being against climate change risk and impacts. The activities of the Project are implemented under four components namely upgrading and enhancing resilience of village irrigation system and scaling up climate resilient farming practices in three river basins of the dry zone, enhancing climate resilient decentralized water supply and management solutions to provide year round access to safe drinking water to vulnerable communities, strengthening climate and hydrological observing and forecasting system to enhance water management and adaptive capacity of smallholder farmers droughts and flood and project management.

As per the Grant Agreement, the estimated total cost of the Project was US\$ 52.084 million equivalent to Rs. 7,521.45 million and out of that US\$ 38.084 million equivalent to Rs. 5,499.71 million was agreed to be financed by Green Climate Fund (GCF).The balance amount of Rs 2,021.74 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on July 2017 and scheduled to be completed by June 2024. However, the date of completion of the activities of the Project had been extended up to 28 December 2025.

1.3 Disclaimer Opinion

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

1.4 Basis for the Disclaimer of 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 was not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit 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 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 Basis for Disclaimer of Opinion section, I was not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

	Audit Issue	Amount Rs. Million	Response of the Management	Auditor’s Recommendations
(a)	The Green Climate Fund had provided the entire sum of USD 38.084 million equivalent to Rs.9,172 million to United Nations Development Programme (UNDP), however only USD 18.85 million equivalent to Rs.4,745.93 million had been disbursed to the project as at 31 December 2024 and a sum of USD 15.75	1,019.64	We acknowledge and agree with the audit observation. As noted, the financial statements of the project have been prepared only for the funds disbursed to the Project Management Unit (PMU) – GOSL section, which represents 49 percent of the total disbursement. Expenditures incurred directly by UNDP, as well as the balance retained, are not reflected in these statements.	Fund provided by the donor agency should be channelled through the Central Bank and used for the purpose of the project.

million equivalent to Rs.3,444.05 million had been spent by the UNDP to carry out several activities of the project. Accordingly, a balance fund of USD 3.48 million equivalent to Rs.1,019.64 million had been retained by UNDP. Since the financial statements had been prepared only for the amount disbursed to the PMU which represent 50 per cent of the total disbursement, the financial performance and the financial position of the whole project does not reflect and, audit scope was limited to the activities carried out by the PMU.

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| (b) | The commitment charges of Rs. 20.89 million had not been accounted in the financial statements. As a result, project expenditure had been understated by similar amount. | 20.89 | Commitment fees and deficit advances were not reflected in the project accounts, resulting in the noted mismatch. Actions should be taken to account commitment charges. |
| (c) | Credit balance amounting to Rs. 352.52 million had not been included in the financial statements. As a result, liabilities had | 352.52 | We have prepared and attached a detailed schedule which reconciles this amount and shows how it has been incorporated into the cumulative project value. The amount is not an Actions should be taken to disclose all the transactions in the financial statements. |

been understated by similar amount.

omission but forms part of the overall project financing, and the schedule demonstrates its alignment with the total project value as reported. This reconciliation ensures consistency and transparency in the reporting of cumulative funds.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Audit Issue	Response of the Management	Auditor's Recommendations
(a) The clause 2.01 of the FAA (Funded Activity Agreement)	The accredited entity (UNDP) "shall monitor and supervise the implementation of the funded activity by the executing entity." Without considering that clause, accredited entity (UNDP) had engaged in implementation of the project activities and incurred 44.7 percent of the total expenditure amounting to USD 15.75 million equal to Rs.3,444.12 million within the period of 2017-2024.	UNDP claimed that project activities were implemented in line with the relevant agreements signed with the Ministry of Irrigation and the Ministry of Finance. However, the Project Team and Auditors found that in 2020 the agreed disbursement process was altered without obtaining Government, Cabinet, or GCF approval, despite the absence of any authority in the agreements to make such changes.	Project activities should be implemented by the executing agency and should be monitored and supervised by the accredited agency as per the FAA.
(b) The section B of funding proposal of FAA.	A sum Rs. 4,745.93 million from the Green Climate Fund and Rupees 2,818.87	This matter, which is beyond the PMU's control, has been previously	Government contribution should be released based on the amount received to the PMU as per the

million from the Government of Sri Lanka had been received to the project management unit up to the year ended 2024. According to the section B of funding proposal of the FAA, the contribution of the Government of Sri Lanka is 27 percent and contribution of Green Climate Fund is 73 percent of the total budget of the project. Although Rs.4,745.93 million had been received from the Green Climate Fund for the project and it was only 62.74 percent of the total project cost. As a result Sri Lankan government had been spent Rs.2,818.87 million equal to 37.26 percent of the project cost during the period of 2017-2024.

communicated, and steps are being taken to engage with UNDP and relevant authorities to ensure full and timely transfer of GCF funds.

conditions of Funding Proposal.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
(a) In the expenditure estimates document for the year 2024 of the project, the financial progress of 21 activities had been recorded as zero.	We agree with the audit observation.	The project should implement project's activities as planned.

- (b) Under the Mannar district downstream development program, for the development of 7 tanks belonging to the Sinnappuchchikulam Cascade, Rs. 25.2 million (Rs. 3.6 million per tank) was released to the Department of Agrarian Development - Mannar, on 29 November 2023. However, no summary estimate or directive from the Department of Agrarian Development was available regarding how these funds were to be utilized for the development of the 7 tanks, and as at 15 January 2025, no financial or physical progress related to the expenditure of these funds had been reported to the project.
- The delay due to the non-availability of technical Staff. The works now started. Action should be taken to verify released funds are used for the intended work effectively.
- (c) MCB has engaged the services of a specialist since November 2023 for the Services of Monitoring and Supervision Consultant for Rehabilitation of Village Irrigation System (VIS) under the Wewagam Pubuduwa Project. The total amount paid to MCB for this specialist service from November 2023 to October 2024 was Rs. 11.39 million, and for this, 16.5% of the service fee has been paid to MCB, exceeding the maximum service fee of 1.5% of the service cost. It was observed that the total value paid as service charges since November 2023 was Rs. 1.37 million (16.5%). As well as it was observed that an amount of Rs. 1.24 million (15%) of that amount had been paid to the relevant institution contrary to the Cabinet decision No. 21/0967/314/026 dated 25th June 2021.
- The services of a technical expert were obtained through the Mahaweli Consultancy Bureau (MCB) upon the recommendation of the Project Procurement Committee, based on cost specifications submitted by MCB. Accordingly, the contractual applicant was MCB, and all payments made were in line with the approved contract terms for services provided through them. Project should adhere to Cabinet-approved fee limits.

3.2 Observations made on site visits

Audit Issue	Management Response	Auditor's Recommendations
<p>The project, under its objective of strengthening Agrarian Service Centers in seven districts as knowledge hubs to support the Department of Agrarian Development in disseminating climate and agricultural advisory services, incurred an expenditure of Rs. 13.72 million to provide 65-inch LED television screens to 46 Agrarian Service Centers. A field inspection of six centers that received these screens revealed that only two centers (Maradankadawala and Mihintale) had used them for agricultural advisory extension services, mainly for training workshops, while the others had not utilized the equipment for its intended purpose. Furthermore, the core objective of the initiative establishing a digital network system to broadcast climate advisory services had not been achieved, as the required system had not been developed even by the audit date of 24 July 2025, resulting in underutilization of resources and failure to realize the primary project goal.</p>	<p>The Monitoring & Evaluation Specialist position, though approved as a key project role, faced continuity challenges due to repeated resignations mainly related to dissatisfaction with the salary level.</p>	<p>Project should ensure that achievement of intended objectives within the stipulated time period.</p>

3.3 System and Control

Audit Issue	Management Response	Auditor's Recommendations
<p>The final audited report had not been submitted to Green Climate Fund (GCF) annually.</p>	<p>We have also conveyed your concern to the relevant authorities and will continue to coordinate closely with them to ensure timely submission to the GCF.</p>	<p>Audited financial statements along with the Auditor General's report has to be submitted to the GCF promptly.</p>