

## **National Agribusiness Development Programme - 2013**

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The audit of financial statements of the National Agribusiness Development Programme (NADeP) for the year ended 31 December 2013 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 9.03 of Article IX of the Financial Agreement No.797- LK dated 23 February 2010 entered into between the International Fund for Agricultural Development (IFAD) and the Government of the Democratic Socialist Republic of Sri Lanka (GOSL).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Financial Agreement of the National Agribusiness Development Programme, the Central Bank of Sri Lanka was the Lead Programme Agency and shall have overall responsibility for implementation of the Programme. However, according to the recommendations of the Post Mid Term Review Mission of IFAD of January 2013, the Ministry of Economic Development is the Lead Programme Agency since May 2013 and shall have overall responsibility for implementation of the Programme by linking with ongoing “Divineguma” programme and the Central Bank of Sri Lanka is the Implementing Agency of the Micro Finance sub-component. The objectives of the Programme are to assist smallholder farmers and the landless, especially the youth by (a) increasing their incomes through participation in the Market Chain Development and Linkages Component which shall improve farm gate prices, on-farm productivity and add value to processed farm products; and (b) the provision of financing and training to the landless and youth to offer them improved and increased employment opportunities.

According to the Financial Agreement, the estimated total cost of the Programme is US\$ 32.9 million and it was agreed to be financed with US\$ 25 million from the IFAD, US\$ 1 million from the GOSL and balance US\$ 6.9 million from the Private Companies, Producers, Community Based Organizations and the Participatory Financial Institutions. The Project commenced its activities on 01 February 2011 and is scheduled to be completed by December 2015.

### **1.3 Responsibility of the Management for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **2. Scope of Audit and Basis of Opinion**

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My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible

within the limitation of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Programme management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identification of the purchases made out of the Loan, etc.
- (c) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financial Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Programme.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (f) Whether the financial statements have been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (h) Whether the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

- (j) Whether the financial covenants laid down in the Financial Agreement had been complied with.

### **3. Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that;

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Programme and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Finance Agreement,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Financial Agreement had been complied with.

### **4. Financial Statements**

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#### **4.1 Financial Performance**

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According to the financial statements and information made available for audit, the expenditure for the year ended 31 December 2013 amounted to Rs. 91,672,955 as compared with the expenditure of Rs. 56,698,642 for the preceding year and the cumulative expenditure as at 31 December 2013 amounted to Rs. 156,047,049. The following statement shows a summary of the expenditure for the year under review, for the preceding year and the cumulative expenditure as at 31 December 2013.

	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	2013	2012	
	Rs.	Rs.	Rs.
Furniture and Equipment	446,450	298,550	1,849,634
Technical Advice and Studies	-	640,408	1,017,410
Training and Workshops	615,855	1,434,556	2,273,322
Micro Finance and Youth Training	83,394,943	40,129,683	123,765,784
Salaries and Allowances	6,192,991	14,044,866	25,942,294
Operation and Maintenance	1,022,716	150,579	1,198,605
<b>Total</b>	<b>91,672,955</b>	<b>56,698,642</b>	<b>156,047,049</b>

#### 4.2 Imprest Fund Account - IFAD

According to the financial statements and information made available, a summary of the operations of the Imprest Fund Account maintained by the Central Bank of Sri Lanka for the year under review is shown below.

	USD	Rs.
Balance as at 01 January 2013	2,441,853	310,508,039
<b>Add:</b> Replenishments during the year	42,056	5,359,490
Foreign Exchange Gain	-	6,822,724
	2,483,909	322,690,253
<b>Less:</b> Withdrawals	1,032,370	132,897,183
<b>Balance as at 31 December 2013</b>	<b>1,451,539</b>	<b>189,793,070</b>

#### 5. Audit Observations

##### 5.1 Presentation of Financial Statement for Audit

Revised financial statement of the Programme was submitted for the audit on 30 September 2014 even though it was required to be submitted on or before 30 April 2014.

##### 5.2 Financial and Physical Performance

###### 5.2.1 Utilization of Funds

Certain significant statistics relating to the financing of funds, budgetary provisions for the year under review, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2013 are shown below.

Source	Amount agreed to be financed according to the Finance Agreement		Allocation made in the Annual Budget for the year 2013	Amount utilized during the year under review		Amount utilized as at 31 December 2013	
	US\$ Mn	Rs. Mn		Rs. Mn	US\$ Mn	Rs. Mn	US\$ Mn
IFAD	25.00	3,268.75	400	0.71	91.67	1.12	146.04
Private Companies	5.25	686.44					
Community Based Organizations	0.76	99.37					
Participatory Financing Institutions	0.39	50.99					
Producers	0.57	74.53					
GOSL	0.99	129.44	20	-	-	-	10.01
<b>Total</b>	<b>32.96</b>	<b>4,309.52</b>	<b>420</b>	<b>0.71</b>	<b>91.67</b>	<b>1.12</b>	<b>156.05</b>

The following observations are made.

- (a) A comprehensive detailed Action Plan highlighting financial and physical targets in monthly, quarterly and biannual basis with fixed responsibilities to cover entire Programme period should be prepared to ensure the achievement of programme objectives within the specific programme period. However, such plan had not been prepared and implemented by the Programme Management Unit.
- (b) According to the above information Rs. 156.05 million out of the sum of Rs. 4,309.96 million allocated for the Programme only had been utilized as at 31 December 2013 thus indicating that only 3.6 per cent of funds allocated had been utilized even at the end of three years from the commencement of the activities of the Programme. Further, it was observed that the time available up to the scheduled date of completion of the Programme would not be adequate for the utilization of 96.4 per cent of the funds allocated for the components of the Programme. The detail of component wise fund utilization is given below.

Expenditure Category	Estimated Expenditure		Cumulative Expenditure as at 31.12.2013	Cumulative Expenditure as a Percentage of Total Provision
	US\$	RS.		
Motor Vehicles	603,302	78,881,736	-	-
Civil works	3,474,531	454,294,928	-	-
Equipment and Goods	3,290,530	430,236,797	1,849,634	0.43
Technical Advice and Studies	1,446,826	189,172,500	1,017,409	0.53
Training and Workshops	3,926,244	513,356,403	2,273,322	0.44

Service Provider Contracts	3,091,733	404,244,090	-	-
Credit	8,817,363	1,152,870,212	123,765,785	10.73
Share Capital	7,125,221	931,622,646	-	-
Salaries and Allowances	985,661	128,875,176	25,942,294	20.12
Operation and Maintenance	201,917	26,400,648	1,198,605	4.54
<b>TOTAL</b>	<b>32,963,328</b>	<b>4,309,955,136</b>	<b>156,047,049</b>	<b>3.62</b>

## 5.2.2 Physical Performance

The following observations are made.

- (a) The Annual Progress Reports for the Programme should be prepared and presented in terms of Section 7.2(e) of Schedule 1 of the Financial Agreement. Such reports for the year under review had not prepared and presented by the Programme Management Unit to enable the evaluation of the physical progress of the activities carried out by the Programme.
- (b) A Memorandum of Understanding had been signed with the Central Bank of Sri Lanka and Regional Development Bank by the Programme to implement a Micro Financing Loan Scheme. According to the information received, the Regional Development Bank had granted sub-loans aggregating Rs. 148.7 million at the end of the year under review and out of that, only a sum of Rs.113.5 million had been refinanced by the Programme. It was observed that the operating instructions issued by the Central Bank of Sri Lanka relating to the Micro Financing Loan Scheme had not been properly followed by the Regional Development Bank and as such the refinancing of balance amount of Rs. 35.2 million had been suspended by the Programme.
- (c) It was observed that different rates of interest on micro financing loans ranging from 13.25 per cent to 20 per cent per annum had been charged by the Regional Development Bank at Branch level whereas the stipulated rate of interest had been 12.25 per cent per annum, thus indicating that the real benefits of the micro finance loan scheme had not flowed to the grass roots level.
- (d) Since an adequate number of micro financing institutions, such as Samurdhi Banks are available in the districts where Programme is being implemented, Implementation Support Mission of the Programme recommended that the Microfinance Sub-Component to be discontinued and the remaining funds should be reallocated for Value Chain Development in Component 1. However, this situation had not been identified at the Programme Design Stage.
- (e) According to Paragraph 135 of the Programme Design Report, a Revolving Fund should be established for refinancing of sub-loans and operated over the next 15 years. Therefore, the Regional Development Bank had remitted a sum of Rs. 14,627,919 to the Central Bank of Sri Lanka and the remittances had been retained in a current account at the Domestic Operations Department of the Central Bank of Sri

Lanka at the end of the year under review. Further, as the Micro Finance Component has to be discontinued, the Programme Management Unit had not taken steps to bring that remittance back to the Programme.

- (f) None of the activities expected to be carried out under the Component of Value Chain Development and Market Linkage had been implemented even up to 31 December 2013 even though US\$ 24.18 million equivalent of Rs. 3,161.54 million had been allocated by the Programme.
- (g) The internal audit of the transactions of the Programme for the year under review had not been carried out in terms of Financial Regulation No 133.
- (h) Annual Board of Survey in respect of the furniture and equipment had not been carried out in order to ensure the physical existence of the assets of the Programme in terms of Financial Regulation 756.