

National Agribusiness Development Programme - 2015

The audit of financial statements of the National Agribusiness Development Programme for the year ended 31 December 2015 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 Financing Agreement No. 797 – LK dated 23 February 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Fund for Agricultural Development (IFAD).

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Financing Agreement of the National Agribusiness Development Programme, the Central Bank of Sri Lanka was the Lead Programme Agency. However, as per the recommendations of the Mid Term Review Mission of International Fund for Agricultural Development in January 2013, the Ministry of Economic Development had been named as the Lead Programme Agency to link with “Divineguma Programme”. As per the Cabinet Decision No. 15/0519/605/009-1 dated 30 April 2015, the Programme was subsequently transferred to the Ministry of Rural Economic Affairs. Presently, the activities of the Programme are being functioning under the supervision of the Presidential Secretariat. The objectives of the Programme are to assist small holder farmers and the landless, especially the youth by (a) increasing their income through participation in the Market Chain Development and Linkages 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 persons and youths to offer them improved and increased employment opportunities. As per the Financing Agreement, the estimated total cost of the Programme was US\$ 32.96 million equivalent to Rs 4,309.52 million and out of that US\$ 25 million equivalent to Rs 3,268.75 million was agreed to be provided by the International Fund for Agricultural Development. The balance amount of funds was expected to be contributed by the Government of Sri Lanka, Private Companies, Producers, Community Based Organizations and Participatory Financial Institutions. The Programme commenced its activities on 01 February 2011 and scheduled to be completed by March 2016. However, the date of completion of the Programme had been extended upto 30 September 2017.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards and International Fund for Agriculture Development Guidelines for Project Audits. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Programme's preparation and fair presentation of the financial statements 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 the Programme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) 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 Agencies, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identifications of the purchases made out of the Loan etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Programme.

- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues were highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

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 2.2 of this report, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2015 in accordance with Sri Lanka Accounting Standards the IFAD Guidelines for Project Audits,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) 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 Financing Agreement,
- (e) the 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 Financing Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

The financial statements for the year under review which required to be submitted on or before 31 March 2016 had been submitted for audit only on 29 April 2016.

2.2.2 Unsettled Balances

A sum of Rs. 900,000 payable to the service providers on Youth Training Programme held at the University of Peradeniya was remained unsettled since 2013.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics in relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized	
	US\$ million	Rs. million		during the year under review	as at 31 December 2015
			Rs. million	Rs. million	Rs. million
IFAD	25.00	3,268.75	1,404.00	26.38	224.57
Private Companies	5.25	686.44	-	-	-
CBOs	0.76	99.37	-	-	-
PFI	0.39	50.99	-	-	-
Producers	0.57	74.53	-	-	-
GOSL	0.99	129.44	107.90	1.93	14.90
	<u>32.96</u>	<u>4,309.52</u>	<u>1,511.90</u>	<u>28.31</u>	<u>239.47</u>

The following observations are made.

- (a) According to the above information, the Programme had utilized a sum of Rs. 28.31 million representing 1.87 per cent of the allocation of Rs 1,511.90 million made by the Budget Estimate for the year under review. Similar situation of underutilization of allocation had been highlighted in my report for the previous year

and it indicated that the annual financial targets had not been achieved by the Programme continuously.

- (b) According to the Financing Agreement, it was expected to contribute US\$ 7.96 million representing 24.15 per cent of the total allocation by the Private Companies, Producers, Community Based Organizations, Participatory Financing Institutions who involved in the Value Chain Development activities. However, action had not been taken to make contributions from respective parties entirely.

3.2 Physical Progress

The activities of the Programme was expected to be implemented under the components such as Private Sector and Community Based Organizations led Marketing Chain Development and Linkages and providing microfinance and training for youth etc.,. The following observations are made in this connection.

- (a) According to the information received, 40 Business Proposals had been received from the private sector business organizations and community based organizations to cover 49,184 beneficiaries under the component of Marketing Chain Development and Linkages and out of that only 06 Business Proposals to cover 7,163 beneficiaries had been implemented as at 31 December 2015.
- (b) According to the information received, the micro financing activities which discontinued since January 2014 had been revamped in December 2015. However, balance of installments Rs 99.79 million recovered from the sub loans granted in the previous years had remained in a Special Account at the Central Bank of Sri Lanka as at 31 December 2015 without utilizing for intended purposes.

As stated in the above paragraphs, the Programme had shown a slow progress on implementation of the activities under all components of the Programme as at 31 December 2015. As per the explanations made by the Programme Manager, the success of the operations of the Programme is depend on the validity of the business proposals presented by the third parties and the main activities of the Programme had shown slow progress, due to lack of viable business proposals received to the Programme during the year under review. Further, other reasons such as frequent changes of the Implementing Agencies, regular changes of the office premises, high staff turnover, shortage of recruitments of staff members, due to lack of approval of cadre position as stipulated in the Financial Agreement etc, had caused for slow progress on implementation of the activities of the Programme.