

Agriculture Sector Modernization Project - Part 02 - 2017

The audit of financial statements of the Agriculture Sector Modernization Project – Part 02 for the first year ended 31 December 2017 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 Financing Agreement No. 5873-LK dated 17 January 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, the Ministry of Agriculture is the Executing and Implementing Agency of the Agriculture Sector Modernization Project – Part 02. The objectives of the Project are to support to increase agriculture productivity, improve market access and enhance value addition of smallholder farmers and agribusinesses in Jaffna, Mullativu, Anuradhapura, Batticaloa, Monaragala, Matale and Polonnaruwa districts. Further, the activities for the support for smallholder farmers to produce competitive and marketable commodities, improve their abilities to respond to market requirements and move towards commercialization are expected to be carried out under the Agriculture Sector Modernization Project – Part -2. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 64.23 million equivalent to Rs. 9,642.35 million and out of that the US\$ 63.64 million equivalent to Rs. 9,553.78 million was agreed to be provided by the International Development Association. The Project commenced its activities on 24 July 2017 and scheduled to be completed by 31 December 2021.

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 Generally Accepted Accounting Principles and for such internal control as the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditors 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. 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the Project'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 Project'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 controls so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operation of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan, etc
- (d) Whether the initial deposit, withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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, material and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles, and
- (i) Whether financial covenants laid down in the Financing Agreement had been complied with.

2. Financial Statements

2.1 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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of

affairs of the Project as at 31 December 2017 in accordance with Generally Accepted Accounting Principles,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial deposit, withdrawals from and the replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement, and
- (e) the financial covenants laid down in the Financing Agreement had been complied with.

2.2 Non- Compliance with Laws, Rules and Regulation

Project Steering Committee meetings had not been conducted during the year under review for the purpose of the smooth operations of the activities of Project, as required by the Section 09 of the Circular No. 01/2016 of 24 March 2016 of the Department of Management Services.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds up to 31 December 2017 are shown below.

Sources	Amount agreed for financing in the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2017	
	US\$ million	Rs. million		Rs. million	US\$ million
IDA	63.64	9,553.78	700	0.52	80.00
GOSL	0.59	88.57	20	0.01	1.40
Total	<u>64.23</u>	<u>9,642.35</u>	<u>720</u>	<u>0.53</u>	<u>81.40</u>

The Comprehensive Details Action Plan highlighting financial and physical targets covering entire period of the Project required to be prepared to ensure the achievement of Project

objectives had not been prepared and implemented by the Project. Therefore, out of the allocation amounting to US\$ 10 million representing 15.70 per cent of the total allocation expected to be utilized as at 31 December 2017 as per financial plans of the Project, a sum of US\$ 0.52 million representing 0.80 per cent only been utilized at the end of the year under review. Further, out of the allocation amounting to Rs.720 million made in the Budget Estimate, only Rs.81.40 million representing 11.30 per cent had been utilized at the end of the year under review.

3.2 Physical Progress

The following observations are made.

- (a) According to the Project Appraisal Document, the activities of the Project comprised with 04 sub components namely, Farmer Training and Capacity Building, Modern Agriculture Technology Park, Production and Marketing Infrastructure and Analytical and Policy Advisory Support. According to the information received, only the initial activities under the sub components such as conducting awareness programs, hiring consultants for baseline surveys and evaluation systems and assessments of farmers' organization etc had been conducted during the year under review.

- (b) The Project had not taken action as per paragraph 34 of the Project Administration Manual to select and obtain the services of a foreign Consultant as International Agriculture Technology Service Providers even as at 31 December 2017. It was observed that designing of all activities of the Project and the commencement of such activities depends on the selection and performance of the service providers.

3.3 Human Resources Management

Eventhough the activities of the Project had been commenced in January 2017, the officers in the key posts such as Deputy Project Director, Accountants, Procurement Officer, Monitoring and Evaluation Officers, Social Development Specialists, Engineers had been recruited in July 2017. As a result, the physical progress of the activities of the Project had shown slow progress during the year under review.