

Agriculture Sector Modernization Project - Part 02 - 2018

The audit of financial statements of the Agriculture Sector Modernization Project – Part 02 for the year ended 31 December 2018 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. My comments and observations which I consider should be reported to the Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, then Ministry of Agriculture, presently the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development is the Executing and Implementing Agency of the Project. 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. The activities of the Project are implemented under 05 components namely for Farmer training and Capacity Building, Modern Agriculture Technology Parks, Production and Market Infrastructure and Analytical and Policy Advisory Support and Project Management, Monitoring and Evaluation. As per the Financing Agreement, the estimated total cost of the Project was US\$ 62.87 million equivalent to Rs. 9,175.88 million and out of that US\$ 62.50 million equivalent to Rs. 9,121.88 million was agreed to be financed by the International Development Association. The balance amount of Rs. 54 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 01 January 2017 and scheduled to be completed by 31 December 2021.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.1 of this report, accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles

1.4 Basis for 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 Generally Accepted Accounting Principles 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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 skepticism 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 Non-compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance	Impact	Response of the Management	Auditor's Recommendations
757	Financial Regulations	Board of Surveys on property and equipment procured by the Project at a cost of 105.57 million had not been carried out for year under review.	Existence of such assets located at the Project Monitoring Unit and other provincial offices could not be verified in audit.	Board of Survey of Provincial Project Offices in Northern & North Central have already been completed and will be conducted in the other provinces in future.	Board of Survey need to be conducted to ensure the existence of the property and equipment shown in the financial statements.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	Audit Issue	Impact	Reasons for delays
Modern Agriculture Technology Park	Recruitment of International Service Provider	The process of Procurement International Service Provider had not been completed even as at 31 December 2018.	Objective of the Project to transfer the best practices through establishing Agriculture Technology Parks would not be achieved at the scheduled time.	Disagreement of the Line Ministry.
Response of the Management		Not Commented.		
Auditor's Recommendations		Action should be taken to procure to international service provider as enable to adopt with international best practices and transfer the knowledge on farming practices.		

3.2 Issues Related to Human Resources Management

Cadre Position	No of Posts			Impact	Response of the Management	Auditor's Recommendations
	Approved	Actual As at 31 December 2018	No. of vacancies			
Project Engineers	05	04	01	The operations of the Project would be interrupted .	The post of Engineer could not be filled for a long period, due to low salary and action is being taken to fill the vacancy.	Need to take immediate action to fill vacancies in key position to ensure the smooth operation of the Project.
Deputy Project Director	01	-	01			
Procurement Specialist	01	-	01			
Finance Manager	01	-	01			