

Climate Smart Irrigated Agriculture Project - 2019

The audit of the financial statements of the Climate Smart Irrigated Agriculture Project for the year ended 31 December 2019 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 Article Section III(ii) of the Disbursement and Financial Information Letter and Financing Agreement No.6346-LK dated 11 April 2019 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 Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project the Ministry of Agriculture is the Executing Agency and International Development Association is the Implementing Agency of the Project. The objectives of the Project are to improve the productivity and climate resilience of small holder agriculture in selected hotspots area. As per the Loan Agreement, the estimated total cost of the Project amounted to US\$ 140 million equivalent to Rs 25,200 million and out of that US\$ 125 million equivalent to Rs 22,500 million was agreed to be financed by International Development Association. The balance amount US\$ 15 million equivalent to Rs 2,700 Million is expected to be financed by the Government of Sri Lanka and Beneficiaries. The Project had commenced its activities on 07 May 2019 and scheduled to be completed by 30 June 2024

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Paragraph 02 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs) and the International Fund for Agriculture Development Guidelines on Project Audits. My responsibilities, under those standards are further described in the Section of Auditor's Responsibilities for the Audit of the Financial Statements section of this 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 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.

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.

02. Comments on Financial Statements

2.1. Accounting Deficiencies

Audit Issues

Impacts

Responses of the Management

Auditor's Recommendations

(a) Mobilization advance amounting to Rs.68,771,682 paid for the 17 contractors had been taken into accounts as the expenditures of the year under review.

Overstatement of expenditure

Advances given to the contractors had been debited to the development expenditure account of the year under review.

Only the expenses which is relevant for the year should be accounted and advances should be disclosed separately in the financial statement

(b) As per the Project Appraisal Document, beneficiaries contribution of US\$ 5 million equivalent to Rs. 900 million to be obtained from the two components during the Project period. However, Beneficiaries contribution of Rs. 27,699,100 million only shown in the financial statements during the year under review could not be verified in audit as method of computation, kind of contribution and amount of contribution obtained from the each Beneficiaries for the two separate components were not made available for audit.

Overstatement/ understatement of value of beneficiaries shown in the financial statement due to incorrect computation

Agreed with the observation.

Beneficiaries contribution should be based on farmer's actual contribution and it should be disclosed in the financial statement

2.2. Non-compliance with Rules and Regulations

	Non – Compliances Audit Issue	Impacts	Responses of the Management	Auditor's Recommendations	
(a)	Circular No 01/2019 dated 15 of march 2019 Issued by the Department of Management Services	Project steering committee (PSC) meeting should be held once in 02 month	The expected results were not achieved	Past 06 month period we have faced to the covid 19 pandemic situation. Therefore unable to organize PSC recently	Project steering committee meeting should be held timely as per instruction of the circular
(b)	As per the Section 21 of Annexure 2 of the Project Appraisal Document	The internal audit unit of respective line ministry should carry out Internal Audit of the project.	Poor internal control system	No response from the Management	Project should be audited by the internal audit unit of the Ministry
(c)	Section 4.2 of the chapter 04 of Procurement Guild lines of Democratic Socialist Republic of Sri Lanka	Procurement plan and procurement time table should be prepared as per procurement guidelines	The expected results were not achieved		Procurement plan and time table should be prepared Completely.

03. Physical Performance

The activities of the Project consisted with 04 components. Which are Agriculture Production & Marketing, Water for Agriculture, Project Management and Contingent Emergency Response. The Primary Project Beneficiaries will be over 470,000 Smallholder farmers (375,000 Ha) in Hot-Spot areas in 11 Administrative Districts in Northern Province (Kilinochchi & Mullativu) Eastern Province (Tricomalee, Batticaloa & Ampara) Northcentral Province (Anuradhapura & Polonnaruwa) Northwestern (Kurunegala and Puttalam) Southern Province (Hambantota) and Uva, Province (Monaragala) in Sri Lanka. The Project is implemented for over six years (2018-2024). The Ministry of Agriculture (MOA) is the lead Project Agency. The Following Observations are made relating to the progress of the above mentioned 04 Components

3.1. Delays in commencement of activities of the project

Activities	Impacts	Responses of the Management	Auditor's Recommendations
(a) An advance of Rs. 8.52 million had been paid to 02 private contractors under contract package-01 and package-02 for rehabilitation project of Ranorawa Wewa in Anuradhapura on 24 December 2019. However, the contract works had not been commenced even up to 22 June 2020.	Construction activities will not have been able to complete within the agreement period as physical progress is very low	Agreed with the audit query	An action should be taken on delay in Commencement & works
(b) As per Section 34 of Project Appraisal Document, it was required to establish and maintain a Management Information System (MIS) as enable to timely review and appraise the activities of the Project. However, no action had been taken to establish the Management Information System even up to 22 June 2020.	The expected results were not achieved	TOR For the MIS has already been prepared. We are hoping to implement the MIS For CSIAP before 31 st of October 2020	Management Information System should be established without delay
(c) Four consultants were selected to the 06 provinces and awarded the contracts at a cost of Rs. 65,502,182 with the intention of implementation of the Project activities from Maha Season and a sum of Rs. 42,033,122 had been paid to the consultants firms as advances and part payments to prepare a Climate Smart Irrigated Plan at provincial level. Even though one year lapsed, the physical progress of the Project was remained	The physical progress of the project was remained at unsatisfactory level	Agree with the observation and various reasons are caused for the delay of preparation of plan, such as presidential Election, changes made to the action plan and inavailability of True Scale Location Map requested by the consultant	Take necessary action to prepare the Climate Smart Irrigated Agriculture Plan timely

at very unsatisfactory level, due to delay in preparation of above plan. Further, An advance guarantee had not been obtained from the consultants in terms of Sections 6.6.4 of the Procurement Guidelines of Democratic Socialist Republic of Sri Lanka on the advance payment of the Rs. 4,935,472 made to the four constancy firms selected to prepare the Climate Smart Irrigated Agriculture Plan.

3.2. Issues Related to Human Resources Management

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Physical supervision and sufficient evaluation had not been made and the instructions and proper guidance for the contract works were not given by the Project office, due to the post of Senior Engineer on Water Management included in the approved carder had not been recruited by the Project office.	Activities of the project will be delayed and contract works were being carried out without proper supervision	Senior Engineer on water management resigned in April 2020 and process of Procurement has already been started to appoint engineer on consultancy basis	The key post of the project must be recruited without delay
(b)	It had been informed by the Cabinet Decision No. 18/1433/820/015 dated 01 August 2018 to cover up the duties by qualified officers employed in the Ministry of Agriculture until the recruitment of the staff through approval of the Department of Management Services. Therefore, actions	Poor Human resource Management	Agree with the observation, We have recruited the part time employees base on the cost minimize of the project	(a).Monthly task schedule should be given to part time staff at the begging of the month by the project director/ Deputy project Directors

had been taken to deploy 40 officers of the Line Ministry and relevant Provincial Councils on part time basis and 06 employees on the basis of daily payment for the purpose of covering up duties of the aforesaid staff and a sum of Rs. 8,267,863 had been paid as remuneration up to 31 December 2019, even though approval of the Department of Management Services had been received on 12 September 2018 and 18 March 2019 to recruit the permanent staff of the Project. Therefore, non-recruitment of permanent employees for approved carder had been made a significant impact on the decline in the physical performance of the Project.

(b).Details of actual work done should be obtained from the part time staff by the respective supervising officers

(c).Attendance for part time officers should be maintained by the PMU

(d).monthly allowances should be calculated based on part time officers actual working hours of each month in terms of the circular dated 18 September 2019 No MOA/CSIAP/PMU/Admin Issued by the Deputy Project Director (PMU)

(c) Though six procurement specialist had been recruited during the year under review, sufficient work relating to the procurement had not been assigned to them

Expenditure spent to the procurement specialist become fruitless

All procurement specialist employed should be carryout the duties efficiently in terms of the appointment letters.

(d) As per action plan, although it was expected to spend Rs. 520.5 million under 3 component during the year under review, the allocation of Rs. 440 million had only been made in the budget estimate by the General Treasury. However, actual expenditure of the

Commitment charges has to be paid for the unutilized allocation and Financial Progress will not be able to achieved as mention in the plan

Agree with observation

An action should be taken to utilized the Funds according to the Action Plan

Project was Rs. 256.5 million representing 58 per cent, out of the allocated amount of Rs.440 million made by the General Treasury. The main reasons for the slow financial progress are fail to prepare Hot-Spot Area Development Plan (HSAADP) and comprehensive detail action plan covering entire period of Project to achieve the objective of the Project and delay in recruitment of the key post such as Senior Engineer on Water Management, Water Resource Development Specialist, Procurement Specialist, Social Development Officer, Development Officer, Management Assistant on permanent basis as per the approved carder.

(e) An action had not been taken to fill 26 vacancies at Project Management unit and Deputy project Directors office in approved cadre as at the year under review whilst 43 employees out of present staff were recruited on part time basis.

Poor Human resource Management

Applications were called and interviews will be held in due course

Vacancies should be filled without further delay for smooth operations of the project