

Smallholder Agribusiness and Resilience Project - 2022

The audit of financial statements of the Smallholder Agribusiness and Resilience Project for the year ended 31 December 2022 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 the Loan Agreement No. 2000003227 and Grant No. 2000003226 dated 10 June 2021 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agriculture Development (IFAD). 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, the Ministry of Agriculture is the Executing Agency and the Project Management Unit established for SARP is the Implementing Agency of the Project.

The objectives of the Project are to build resilience and market participation of 40,000 rural smallholder households in the project area. The activities of the Project are implemented under three components namely Capacity Building for Climate Resilience and Inclusive value chains, Investment for climate Resilience and Inclusive value chains and Project management and coordination.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 55.3 million equivalent to Rs 9,954 million and out of that US\$ 42.7 million equivalent to Rs 7,686 million was agreed to be financed by International Fund for Agriculture Development. The balance amount of Rs 2,268 million is expected to be financed by the Government of Sri Lanka.

The Project had commenced its activities on 10 June 2021 and scheduled to be completed by 10 June 2027.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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 Sri Lanka Public Sector Accounting 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.

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

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 scepticism 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 Accounting Deficiencies

No	Accounting Deficiency	Amount Rs. millon	Response of the Management	Auditor's Recommendations
(i)	The project has entered into an agreement on 01 December 2022 to rent vehicles from Vasi Quick Cabs and accordingly, the audit was observed that the payable rental fee as at December 2022 has not been accrued.	2.2	Agreed, it will correct at the next year onwards.	Accounts should be kept as per Sri Lanka Public Sector Accounting Standards.
(iii)	During the audit, it was observed that many of the voucher numbers mentioned in the ledger did not match with the numbers mentioned in the printed vouchers.	-	Agreed, this is due to customization of the accounting software and it is corrected and updated.	Arithmetic accuracy should be taken care of while preparing vouchers.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Management Audit Circular 1/2022 dated 07 February 2022 issued by Department of Management Audit.	Although internal auditor should appoint for projects with a project period of more than one year and a total cost of more than USD 05 million, but it was observed that internal auditor has not been appointed so far.	Initially the PMU seek the possibility of obtaining the serviced of the Internal Auditor of the Small Holder Partnership Programme (SAPP) with the consent of IFAD as SAPP is a one of sister project implemented under the Ministry of Agriculture. However as per the instructions given in the Internal Audit Meeting of the Ministry of Agriculture, we will again request from MSD to obtain approval for an internal auditor.	A qualified internal auditor should be appointed according to Management Audit Circular.

3. Physical Performance

3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
<p>A purchase order (PO) has been issued to Soft Vision Technologies (Pvt) Ltd on 10 October 2022 to install an accounting software worth Rs..5 million. According to the specific terms of the PO, all activities related to installing the software should have been completed within 26 days from 10 October 2022. However it was observed that the installation process not yet completed by 27 June 2023.</p>	<p>Agreed, this is due to the customization of the accounting software is still going on and 75 percent of the contracted amount is paid by PMU by today.</p>	<p>Accounting software should be installed promptly.</p>

3.2 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
<p>According to the Project Design Report issued on 04 November 2019, it was planned to start the project in 2020, however the financial agreement was signed on 10 June 2021, and the duration of this project is 06 years. However it was observed that the project has started financial and operational activities from August 2022. Accordingly, it was further observed that the project remained inactive for more than a year after the financial agreement.</p>	<p>According to the 7.2 para of the Schedule I and 7.13 para of the Article VII under the general conditions of the financial agreement it is required to recruit key project personnel to the both project Management Unit (PMU) and the district offices. However, it took longer period to grant approval for the requested carder positions from the department of Management Services irrespective of requests and reminders made time to time.</p>	<p>Activities of the project should be within the time frame.</p>