

Dry Zone Livelihood Support and Partnership Programme - 2012

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 3 of this report, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the Programme's state of affairs as at 31 December 2012 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2012 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka 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 Loan Agreements,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) financial covenants laid down in the Loan Agreements had been complied with.

2. Financial Statements

2:1 Financial Performance

According to the Financial Statements and the information made available, the programme expenditure for the year under review amounted to Rs.557,835,111 and the cumulative expenditure as at 31 December 2012 amounted to Rs.3,008,970,088. A summary of the expenditure for the year under review and the preceding year and the cumulative expenditure as at 31 December 2012 is given below.

	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2012
	<u>2012</u> Rs.	<u>2011</u> Rs.	Rs.
(a) Civil Works	41,062,332	120,021,299	457,519,344
(b) Motor Vehicles and Equipment	1,656,419	1,825,657	77,990,090
(c) Technical Assistance	47,983,129	34,025,287	138,161,101
(d) Training and Workshops	110,538,743	112,497,101	481,495,047
(e) Preliminary Workshops	NIL	NIL	2,409,534
(f) Incremental Operating Cost	93,944,335	95,780,960	493,856,860
(g) Contracts with Service Providers	11,981,094	2,002,308	24,221,132
(h) Marketing Fund Expenses	183,769,059	288,138,236	1,080,366,983
(i) Incremental Credit	66,900,000	100,000,000	252,949,997
	-----	-----	-----
Total	557,835,111	754,290,848	3,008,970,088
	=====	=====	=====

2:2 Imprest Fund Account

According to the financial statements and the information made available, the total receipts to the Imprest Fund Account, the withdrawal therefrom and the balance as at 31 December 2012 are given below.

	<u>US \$</u>	<u>Rs.</u>
Balance as at 01 January 2012	1,016,878	115,823,674
Add : Replenishments	5,446,128	685,750,248
Foreign Exchange Gain	--	4,128,355
	-----	-----
	6,463,006	805,702,277
Less : Withdrawals	5,732,226	712,775,797
	-----	-----
Balance as at 31 December 2012	730,780	92,926,480
	=====	=====

3. Audit Observations

The Programme had been implemented under 05 main components in 04 districts and the matters observed at the audit examination are given below.

(a) Study of Land Tenure Problems

The International Fund for Agricultural Development had provided a grant of US\$ 339,000 with the basic objective of carrying out a study of the problems and difficulties relating to lands faced by the communities living in the Dry Zone and developing a dialogue thereon for the preparation of a national level land policy.

The study for identifying the problems had commenced in August 2009. A sum of Rs.14 million had been spent on this up to end of the year 2011 and the study on the identification of problems to obtain information for the preparation of the brief policy statement only had been carried out. The total expenditure under this component by the end of the year 2012 amounted to about Rs.30 million and the work of the component was nearing completion. Subsequent to the study, the World Food and Agriculture Organization had published the following reports.

- (i) Status Report on the lands of the 04 Districts in where the Programme was implemented.
- (ii) Brief Policy Statement on the Land Tenure in the above 04 Districts.

The total grant and the total expenditure in this by the end of the year 2012 had been Rs.46 million and Rs.30 million respectively. A provision had not been made in the Budget Estimates for the balance sum of Rs.16 million to incur expenditure on the study of those problems in the first three months of the year 2013.

(b) Rehabilitation of Small Irrigation Works and Development of Rural Infrastructure Facilities

The total estimated expenditure under the component by the Programme amounted to Rs.537 million and the total actual expenditure incurred up to the end of the year under review amounted to Rs.457 million. Three Projects with an estimated expenditure of Rs.2,839,389 from the Programme had been abandoned without being completed after entering into contract agreements and making part payments. As such the expenditure of Rs.1,146,614 incurred thereon had become fruitless.

(c) Marketing and Small Businesses Development Component

Even though plans had been made for the implementation of the Programme on direct forward agreements, carbonic fertilizer forward agreements, forward agreements for participants, development of agribusinesses and new agri-products development, implementation of other projects in that place had been approved as the forward agreements system had failed. The matters observed at the examination of the projects implemented thereunder in the year under review in the Monaragala and Badulla Districts are given below.

- (I) A Farmers Society had entered into an agreement on 15 March 2012 for the construction of 20 red onion stores for 20 member farmers in the Monaragala District with a contribution of Rs.2 million from the Programme. A sum of Rs.200,000 had been paid as a mobilization advance on 27 March 2012.

Field inspections revealed that the preliminary work for the construction of 04 stores out of the 20 only had been made. According to the agreement, the works should have been completed on or before 15 June 2012. However none of the work on the stores had been completed even by 23 November 2012.

- (II) The original contractor for the construction of the Information Centre at Siyambalanduwa with a contribution of Rs.1,486,404 from the Programme had abandoned the work and it had been completed through another contractor. An additional expenditure of Rs.217,854 had been incurred on the work, and the work on the Information Centre had been completed by 03 May 2012.

- (III) An agreement had been entered into with a private institution on 02 September 2008 to function as the service provider for the establishment of 250 small businesses with a contribution of Rs.8,318,500 from the Programme in the two Divisional Secretariat areas of Madulla and Siyambalanduwa and a sum of Rs.5,199,194 had been paid to the institution which provided the services for this Programme. The following observations are made in this connection.

- Even though the institution concerned had delayed the submission of the Preliminary Investigation Report at the early stages of entering into the agreement and failed to select beneficiaries and carry out training in terms of the agreement, payments had been made regularly.

- Even though there were 114 beneficiaries who had not started any business and 102 beneficiaries who had started average level businesses instead of establishing 250 small businesses as expected by the end of the agreed period, a sum of Rs.1,722,061 had been paid as the final payment during the year under review.

(IV) A sum of Rs.1,183,378 had been paid for the construction of a cinnamon processing centre in the Grama Niladhari Divisions in Badulla District and the observations made thereon are given below.

- Even though a period of 1½ years had elapsed after the completion of the construction of the building by the end of the year under review, the building remained idle without being used for intended purposes.
- The valance boards and pipes of the gutters had damaged and the doors made of substandard timber had warped.

(d) Improvement of Upland Cultivation and Animal Husbandry

Under the above component, 214 and 268 Farm Field Schools had been established in the Thanamalwila and Siyambalanduwa Divisional Secretariat areas respectively in the Moneragala District and those schools had been divided into 05 Groups as A.B.C.D and E based on 03 criteria.

The progress of the Farm Field Schools achieved according to the above classification is given below.

	Divisional Secretariat Area Thanamalwila	Divisional Secretariat Area Siyambalanduwa
	-----	-----
	%	%
Schools in Grade A,B,C	29	40
Schools in Grades D,E	21	37
Non-functioning Schools	50	23

Out of the Farm Field Schools implemented in the 02 Divisional Secretariat areas, 21 per cent and 37 per cent respectively had been achieved in D,E Grade Schools while 50 per cent and 23 per cent respectively had been

achieved in non-functioning schools. As such the expected progress of the project had not been achieved.

(e) Rural Infrastructure Facilities Development

Agreements had been entered and work commenced on 03 development projects of the Moneragala District at an estimated cost of Rs.1,199,094. The work had been abandoned after spending a sum of Rs.761,312 up to the end of the year under review. Field inspections revealed that the expenditure incurred had become fruitless expenditure.

(f) Failure to Secure Legal Title to Lands

Three buildings had been constructed on private lands during the year under review at a cost of Rs.3,329,234. But formal action had not been taken to acquire the title of those lands in favour of the Farmers' Organization.

(g) Foreign Travel

A sum of about Rs.6.5 million had been spent during the year under review in connection with the participation of officers at a Training Course conducted in Bangkok, Thailand on 25 to 30 June 2012. The following matters are observed in this connection.

- (i) The Training Programme was organized by taking into consideration that the development needs of the Uva Province to participate 11 officers. Subsequently the number of participants at the training course had been increased to 20 by the participation of 09 officers of the Ministry and other institutions including officers who were not directly connected with agriculture and selected without any basis.
- (ii) According to the Circular No.2001/03 dated 02 July 2001 of the Ministry of Finance and Planning, a report on the training should be submitted within two weeks from the date of return to the Island on the completion of the study Training Course. Such reports had not been submitted.

4. Physical Performance

According to the information received in audit, the following targets of the components had not reached in expected level by 31 December 2012.

Component -----	Provision ----- Rs.Million	Physical Target ----- Numbers	Financial Progress ----- Rs.Million	Physical Progress ----- Numbers
(a) Cultivation from Rain Water	418	2,800	386	2,505
(b) Development of Small Irrigation Works	537	750	485	708
(c) Development of Rural Infrastructure Facilities				
i. Community Buildings	} 814	150	} 765	120
ii. Eradication of Poverty		1,600		847
(d) Marketing and Small Businesses Development				
i. Small Businesses	} 352	5,000	} 263	4,631
ii. Forwarded Sales Contracts		20,000		11,443
iii. Marketing Facilities		300		278