

Dry Zone Livelihood Support and Partnership Programme -from 01 January to 30 September 2013

The audit of financial statements of the Dry Zone Livelihood Support and Partnership Programme for the period from 01 January to 30 September 2013 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 5.02 of the Loan Agreement No. 636 LK dated 15 December 2004 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Fund for Agricultural Development (IFAD).

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement of the Dry Zone Livelihood Support and Partnership Programme, the Ministry of Agriculture is the implementing agency of the Project. The objectives of the Project are to; introduce a mechanism for the mobilization of resources to sustainably increase agricultural production and add value to the production in the districts of Anuradhapura, Kurunegala, Badulla and Monaragala. According to the Loan Agreement the estimated total cost of the Project is US\$ 30.4 million and out of that US\$ 22.309 million or 73 per cent was agreed to be financed by the International Fund for Agricultural Development (IFAD). In addition to this, another agreement had been entered into with the Food and Agricultural Organization (FAO) under Land Policy Grant No.712-LK dated 31 August 2009 to finance Rs.40 million for land tenure in the Dry Zone Livelihood Support and Partnership Programme Districts. The Programme commenced its activities in January 2006 and was scheduled to be completed by the end of the year 2013.

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. This responsibility includes: designing, implementing and maintaining internal control

relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Programme management and the reliability of books, records, etc. relating to the operations of the Programme.
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the lending agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the

operations of the Programme, the identification of the purchases made out of the Loan and Grant, etc.

- (c) Whether withdrawals under the Loan and Grant had been made in accordance with the specification laid down in the Loan and Grant Agreements.
- (d) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Programme.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 30 September 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and.
- (i) Whether the financial covenants laid down in the Loan and Grant Agreements had been complied with.

3. 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 5 of this report, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the 09 months period ended 30 September 2013 and the financial statements give a true and fair view of the state of affairs of the Programme as at 30 September 2013 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 09 months period ended 30 September 2013 had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 30 September 2013 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 and Grant Agreements,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan and Grant Agreements had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the Financial Statements and the information made available, the expenditure of the Programme for the 9 months period under review amounted to Rs.147,363,848 and the cumulative expenditure as at 30 September 2013 amounted to Rs.3,155,948,143. A summary of the expenditure for the 9 months period under

review, the expenditure for the preceding year and the cumulative expenditure as at 30 September 2013 is given below.

Items	Expenditure for the 09 months period ended 30 September 2013	Expenditure for the year ended 31 December 2012	Cumulative Expenditure as at 30 September 2013
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	Rs.	Rs.	Rs.
Civil Works	-	41,062,332	457,133,552
Motor Vehicles and Equipment	161,980	1,656,419	78,152,070
Technical Assistance	21,621,828	47,983,129	159,782,929
Training and Workshops	29,404,049	110,538,743	510,899,096
Preliminary Workshops	Nil	Nil	2,409,534
Incremental Operating Cost	51,592,374	93,944,335	545,449,233
Contracts with Service Suppliers	15,557,458	11,981,094	39,778,590
Marketing Funds Expenditure	29,026,159	183,769,059	1,109,393,141
Incremental Gain	-	66,900,000	252,949,997
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Total	<u>147,363,848</u>	<u>557,835,111</u>	<u>3,155,948,142</u>

4.1 Imprest Fund Account

According to the financial statements and the information made available, the total receipts to the Imprest Fund Account and the withdrawals therefrom during the 9 month period under review and the balance therein as at 30 September 2013 were as follows.

	<u>US \$</u>	<u>Rs.</u>
Balance as at 01 January 2013	730,779	92,926,490
Add : Replenishments	623,778	79,458,192

Foreign Exchange Gain	-	561,330
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	1,354,557	172,946,012
Less : Withdrawals	1,354,557	172,946,012
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Balance as at 30 September 2013	Nil	Nil
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5. Audit Observations

5.1 Accounting Deficiency

Retention money aggregating Rs.12,899,782 relating to the civil works and activities carried out under Poverty Alleviation Fund and Marketing Fund had been written off against the value of work done. Therefore value of work done had been understated by that amount.

5.2 Physical Performance

The following observations are made.

- (a) According to the information made available to audit, satisfactory progress at the end of the period under review, had not been achieved in some of the components of the Programme. Details of the targets and achievements thereon as at 30 September 2013 is given below.

Component	Financial		Physical	
	Allocation Made	Actual Expenditure	Targets	Achieved
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	Rs. Million	Rs. Million	Nos.	Nos.
(i) Rain-fed Agriculture	420	403	2,800	2,505
(ii) Development of Small Irrigation System	540	502	750	708
(iii) Community Infrastructure Development				
(i) Construction of building for community centres	} 810	} 793	150	120
(ii) Poverty Alleviation Programme			1,600	847

(iv) Marketing and Micro Enterprises

Development

(i) Micro Enterprises	}	355	}	291	5,000	4,631
(ii) Direct Forward Sales Agreements					20,000	11,443
(iii) Marketing Facilities					300	278

(b) A study on the activities carried out under the Programme had been made by a private firm on the request made by the IFAD. The comments on several activities included in the study report are reproduced as follows.

(i) Establishment of Fruit and Vegetable Collection Centres

 Two buildings had been constructed in the Badulla and Monaragala Districts for the Fruit and Vegetable Collection Centres to provide marketing facilities for the farmers. A separate agreement had been entered into with a private company to provide various services under such Fruit and Vegetable Collection Centres. The following activities which should have been carried out by the respective company as per the Agreement had not been carried out.

- Training of farmers on post harvest technology
- Establishing a Welfare Fund, transfer that to the Farmer`s Organizations and use those for the welfare of the farmers
- Providing credit facilities, Inputs and extension services

(ii) Community Infrastructure Development

 The matters observed and highlighted in the study report were as follows.

- About 40 per cent of wells had been abandoned due to brackish nature of drinking water.
- Many of the Milk Collection Centres and Drinking Water Wells had been constructed on private lands. Therefore, disputes relating to the acquisition of such land had been arisen.

(iii) Micro Enterprises / Entrepreneurs Development Programme

Under this component, 1,648 enterprises had been established out of 2,500 enterprises expected to be established and many of such enterprises were being continued prior to implementation of the Programme. Further 8 per cent of the enterprises had not commenced their operations and 23 per cent of the enterprises had discontinued their operations.

06. Progress Review

(1) The information on the total provision made and the total expenditure incurred of the Programme were as follows.

Particulars	U.S.\$ Million		Rs. Million		Percentage
	Provisions	Expenditure	Provisions	Expenditure	
International Fund for Agricultural Development					%
- Credit	22.479	22.276	2,942.0	2,769	94
- Grant	0.367	0.26	46	34	74
Contribution of the Government of Sri Lanka	1.66	1.37	191	175	92
Community Contribution	1.57	1.57	181	178	98
Total	26.076	25.476	3,360.0	3156	93

(b) The allocation made under each component and the total expenditure as at the end of the Programme had been as follows.

	Allocation made	Amount spent	Expected Target	Physical achievement	Percentage of utilization
	Rs. Million	Rs. Million	No.	No.	%
Development of upland Agriculture	420	403	3,600	3,272	96
Development of Small Irrigation System	540	502	750	708	95
Rural Infrastructure Development	810	793	-	-	98
Macro Finance Facilities	277	276	5,000	4,631	100

Marketing and Micro Enterprises

Development	355	291	25,300	16,081	82
Project management	731	726	-	-	99
Study on disputes in Land Tenure	46	35	-	-	76
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	3,179	3,026	34,650	24,692	
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