

Agriculture Sector Modernization Project - Part 02 - 2019

The audit of financial statements of the Agriculture Sector Modernization Project – Part 02 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 schedule 2, section 11, B.3 of 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, the Ministry of Agriculture is the Executing and Implementing Agency of the Agriculture Sector Modernization Project – Part 02. 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 Jaffana, Mullativu, Anuradhapura, Batticaloa, Monaragala, Matale and Polonnaruwa districts. Further, the activities for the support for smallholder farmers to produce competitive and marketable commodities, improve their abilities to respond to market requirements and move towards commercialization are expected to be carried out under the Agriculture Sector Modernization Project – Part 02. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 64.87 million equivalent to Rs. 9,175.88 million agreed to be provided by the International Development Association. The Project commenced its activities on 01 January 2017 and scheduled to be completed by 31 December 2021.

1.3 Opinion

In my opinion, for the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, financial 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.

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 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 Compliances	Impacts	Responses of the Management	Auditor's Recommendations
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(a)	Circular No: IAI/2002/02 of 28 November 2002 of the Ministry of Finance.	Computers and Accessories procured at a cost of Rs. 11.9 million had not been recorded in the Register of Computer and Accessories. As a result, laptops and other computer accessories cannot be used for the intended purposes of the Project and facilitate to utilize for other purpose as records for the issued items were not made available in the Project office.	Possible usage of other purposes, misuse and damages	In addition to the main Inventory on Computers and Accessories, a detailed register for the issuing of Computers and Accessories in now being maintained and all the assets have been recorded in the Accounting Software namely "Busy"	Need to comply with circular instructions
(b)	Management Audit Circular No. 02/2016 of 10 June 2016 of the Department of Management Audit.	Action had not been taken by the Project to recruit an Internal Auditor. Further, transactions of the Project had not been subjected to audit of Internal Audit Section of the Ministry of Agriculture.	Internal controls may not be properly implemented.	The approval of the Department of Management Services to recruit an Internal Auditor was received on 19 th July 2020 and action will be taken to fill this post very soon.	Action should be taken to recruit an internal auditor, or the transaction of the Project should be audited by the Internal Audit division of the Ministry.
(c)	Paragraph No.7.39 (b) of the World Bank Procurement	Contrary to the World Bank Procurement Regulations, a procurement consultant had been	Undue advantage for the consultant.	Though the Procurement Consultant was hired	Need to comply with procurement regulations of the

Regulations for hired over six months at a monthly remuneration of Rs.250,000 since August 2018 and paid a sum of Rs 1.5 million as remuneration at the end of the year 2019.

for a short-term world bank. period, having considered his experience and exceptional knowledge in the International procurement systems and procedures, his services were continuously obtained with the consent of the World Bank.

3. Physical Performance

3.1 Physical and Financial Progress of the activities of the Project

The activities of the Project are implemented under 5 components namely

- (a) Farmer training and Capacity Building
- (b) Modern Agriculture Technology Parks
- (c) Production and Market Infrastructure
- (d) Analytical and Policy Advisory Support
- (e) Project Management, Monitoring and Evaluation

Components	Activities	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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(a) Modern Agriculture Technology Park	Recruitment of International Service Provider	The recruitment of International Service Provider had delayed over 3 years.	The period of the Project had to be extended and it will affect to the overall time schedules of the Project.	Although the Project was officially commenced from the date of signing of the loan agreement between the World Bank and the Secretary to the	Need to maintain proper coordination with international service provider and prompt action need to

Treasury on 17th January 2017, be taken to catch up the project activities were delayed activities. commenced at the latter part of 2017 after recruiting the key project staff. Furthermore, the approval of the World Bank for this procurement was received on 01st December 2017.

(b) Analytical and Policy policy advisory Development support	An allocation of US \$ 4.28 million equivalent to Rs.624.67 million had been made for this component. However, only US \$ 0.3 million equivalent to Rs.44.72 million had been utilized at the end of the year under review.	The intended benefit will not be received by the stake holders	Not adequately replied. Technical assistance to conceptualize a “National Agriculture Information System” for the Ministry of Agriculture, with the medium-term objective to build capacity for data collection and management in support of policy formulation, enhance public service provision and improved risk monitoring in Agriculture	The action is required to be taken to influence relevant parties to complete the works and close supervision needed on the activities implemented by the Project.
(c) Production and Upgrade and Market rehabilitates infrastructure production and market infrastructures	Due to delay in appointment of an international service provider, the Project had incurred a sum of US \$ 4.93 million to rehabilitates rural roads, rural tanks, agro wells and	Anticipated objective could not be achieved.	Not adequately replied	Action to be taken to adhere with objectives mentioned in the Project Appraisal Document in order to achieve the objectives of the Project.

storage facilities in pilot Project areas without completed other important works such as establishment of modern agriculture technology parks.

3.2 Contract Administration

Nos	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Eight policy development contracts had been awarded to 08 consultancy firms at an estimated cost of Rs. 69.55 million. Even though a sum of Rs 36.4 million had been paid to the consultancy firms during the year under review, the final reports thereon had not been submitted within expected due dates.	The intended benefit will not be received by the stake holders.	Not adequately replied	The action is required to be taken to influence the consultancy firms to comply the requirements of the contracts agreements
(b)	The contract for Design, Develop, Install and Maintain a Beneficiary Information System had been awarded at an estimated cost of Rs.8.25 million on 28 October 2018 and expected to be completed by 27 February 2019. Eventhough, a sum of Rs.1.65 million had been paid at the end of the year	The intended benefit will not be received by the stake holders	All procurements of the project should have been implemented through adopting Several steps under World Bank Procurement Guidelines which required considerable timeframe. Furthermore, the terrorist	The action is required to be taken to influence the contractor to comply the requirements of the contractors agreements

under review; the respective works had not been completed even on the date of audit 30 June 2020 after lapse of 16 months.

attack in 2019 and the globally spread Covid 19 are also some contributory factors for the delay.

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| <p>(c) The contracts on farmer business school training awarded at an estimated cost of Rs.107.46 million during the year under review and paid a sum of Rs.11.85 to the service provider at the end of the year under review. According to the information made available, the training programs had not been completed as expected levels due to poor planning of service providers and deficiencies in selection process of farmers.</p> | <p>The intended benefits will not be received by the framers</p> | <p>In the first 20 pilots, out of 1750 beneficiary farmers, 1450 farmers have been successfully completed the Farm Business Training. Farmer Producer Organization Training for the same farmer group has just completed. Accordingly, 30,000 training man days were able to be covered. The project has completed the farmer training with more than 80% success.</p> | <p>The action is required to be taken to influence the service provider to comply the requirements of the contract agreement and close supervision needed on selection process of farmers.</p> |
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3.3 Observations made on site visits

Nos	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	The site visit made on the agriculture lands in Anuradhapura district had revealed that the curtain fencing, mulching and drip irrigation systems had been used only one cultivation season and removed thereafter without being used continuously. Therefore, expenditure	Fruitless expenditure	The Inputs took back with the consent of the respective FPO and the officers of the project from some beneficiaries who did not follow the instructions of the project and in turn these inputs were released to other beneficiaries. The polythene mulches can be used only one season	The Project Monitoring Unit is required to adopt proper monitoring and supervision mechanism over the activities implemented its sub office, to avoid

incurred Rs. 488 million thereon become fruitless.

and cannot be re-used because they are in additional cost. degradable nature. However, very few beneficiaries have reused them. Now the situation back to normal and the farmers are getting involve in all activities

(b) The audit inspection carried out in June 2020 at the stores of the Project Monitoring Unit had revealed that stock of 8,606 nos of training manuals valued at Rs. 16 million had remained unutilized without distributing to farmer business organization over one year, due to training programs were conducted without proper plan.

Fruitless expenses

The quantity of Training Manuals and Work Books to be printed was based on the expected number of farmers, the Districts and their language. Printing of these documents on piecemeal basis would not only involve the cost but it would also be a time-consuming process. Having considered this situation, it was decided to print a considerably large stock to meet the future requirements too. The un- issued books are remained safely in the stores which will be used fully in the near future.

Before awarding the printing contract, the real requirements of training manuals should be assessed properly.

3.4 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>According to the information made available the physical and financial progress of the Project had remained moderately unsatisfactory level. Further, it was observed that out of the allocation of US\$ 62.5 million equivalent to Rs. 9,121.88 million made under the Loan, only US\$ 15.54 million equivalent to Rs.</p>	<p>Entire allocation of funds would not be utilized at the end of the period of the Project.</p>	<p>The performance of the project has been basically contributed by the delay took place in the selection of an International Service Provider to establish, operate, manage and transfer of Agriculture Technology Demonstration Parks (ATDP). As the ISP has now been appointed and has commenced their works, this situation will</p>	<p>Action should be taken to adhere with targets stipulated in the Project.</p>

2,264.32 million representing 36.5 per cent of the total allocation had been utilized as at 31 December 2019 after lapse of 03 years from the commencement of activities of the Project. As a result of poor performance of the Project, a sum of EURO 25 million to be received as a Grant had not been granted by the Donor Agency.

be rectified soon. Although it was planned to utilize the entire budgetary allocation of Rs.1,640 Million received during the year under review, the utilization was limited to 96.77% as we could not pay the Mobilization Advance of 20% % against the local component of the contract amount as the International service provider was unable to open the Local Bank Account before 31st December 2019. (Annex 01)