

National Agribusiness Development Programme -2014

The audit of financial statements of the National Agribusiness Development Programme for the year ended 31 December 2014 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 Article IX of the Financing Agreement No.797- LK dated 23 February 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the National Agribusiness Development Programme, the Central Bank of Sri Lanka was the Lead Programme Agency and shall have overall responsibility for implementation of the Programme. However, as per the recommendations of the Post Mid Term Review Mission of International Fund for Agricultural Development in January 2013, since May 2013 the Ministry of Economic Development is the Lead Programme Agency and shall have overall responsibility for implementation of the Programme by linking with on-going “Divineguma” programme. Presently, the activities of this sector had been transferred to the Ministry of Rural Economic Affairs. The objectives of the Programme are to assist smallholder farmers and the landless, especially the youth by (1) increasing their incomes through participation in the Market Chain Development and Linkages Component which shall improve farm gate prices, on-farm productivity and add value to processed farm products; and (2) the provision of financing and training to the landless and youth to offer them improved and increased employment opportunities. As per the Financing Agreement, the estimated total cost of the Programme was US\$ 32.9 million equivalent to Rs.4,309.52 million and out of that it was agreed to be financed US\$ 25 million equivalent to Rs.3,268.75 million by the International Fund for Agricultural Development, Rest of funds was expected to be contributed by the Government of Sri Lanka, Private Companies, Producers, Community Based Organizations and Participatory Financial Institutions. The Project commenced its activities on 01 February 2011 and scheduled to be completed by March 2016.

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 Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Programme's preparation and fair presentation of the financial statements 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 the Programme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme,
- (c) 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 identifications of the purchases made out of the Loan etc.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement,
- (f) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Programme,
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme,
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka

Accounting Standards,

- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Financing Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 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 2.2 of this report, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (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 Financing Agreement.
- (e) the 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 Financing Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements for Audit

The financial statements of the Programme was submitted for the audit on 21 May 2015 even though it was required to be submitted on or before 31 March 2015.

2.2.2 Accounting Deficiency

A sum of Rs.3.39 million spent under the Value Chain Development and Market Linkages Component of the Programme had been shown in the financial statements under the civil works.

2.2.3 Un-reconciled Balances

The total expenditure of the Programme amounted to Rs 25.71 million incurred out of the proceeds of the Loan, as shown in the financial statements of the Programme was not agreed with the expenditure amounting to Rs.32.36 million shown in the Annual Appropriation Account of then Ministry of Economic Development. However, action had not been taken to reconcile the difference.

3. Financial and Operating Review

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review, utilization of funds during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed to be financed as per Financing Agreement		Allocation made in the Annual Work Plan for 2014	<u>Fund utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IFAD	25.00	3,268.75	1,500.00	0.19	25.71	1.348	176.15
Private							
Companies	5.25	686.44	-	-	-	-	-
CBOs	0.76	99.37	-	-	-	-	-
PFI's	0.39	50.99	-	-	-	-	-
Producers	0.57	74.53	-	-	-	-	-
GOSL	0.99	129.44	71.17	-	2.95	-	12.96
Total	<u>32.96</u>	<u>4,309.52</u>	<u>1,571.17</u>	<u>0.19</u>	<u>28.66</u>	<u>1.348</u>	<u>189.11</u>

The following observations are made.

- Although the allocation amounting to Rs.1,571.17 million made in the Annual Work Plan for the year 2014, only Rs.28.6 million or 1.82 per cent, out of the total allocation had been utilized during the year under review. Thus, it is evident that the Annual Work Plan had not been implemented properly.
- According to the Financing Agreement, Private Companies, Producers, Community Based Organizations, Participatory Financing Institutions who involved in the Value Chain Development activities expected to contribute US\$ 6.97 million representing 21.14 per cent of the total allocation. However, action had not been taken to make contributions from respective parties entirely.

- (c) The activities of the Programme were expected to be completed by 31 March 2016. However, after elapse of 80 per cent of the Programme period as at 31 December 2014, the Programme had utilized only 4.38 per cent of the total allocation.

3.2 Physical Progress

The activities of the Programme was expected to be implemented under the components such as Private Sector and Community Based Organizations led Marketing Chain Development and Linkages, Recruitments of Mobilizes and Programme Management and Policy Support etc,. The following observations are made in this connection.

- (a) The physical progress of all the activities under the above mentioned components had shown slow progress as at 31 December 2014. As per the explanations made by the Secretary to the Ministry of Rural Economic Affairs, the frequent changes of the Implementing Agencies from the Central Bank of Sri Lanka to the Ministry of Economic Development and presently, the Ministry of Rural Economic Affairs had badly affected to achieve the target of the Programme. As a result of this, the key personnel of the Programme including the Programme Director and Agri- Business Specialists as well as the locations of the Programme office had been changed time to time. Further, a comprehensive Work Plan covering entire period of the Programme along with the detailed Action Plans had not been prepared due to changes of Implementing Agencies and it was further affected to the smooth operations of the Programme.
- (b) According to the Progress reports of the Programme, 02 Business Proposals received from the private sector organizations had been approved under the Value Chain Development and Market Linkages Component of the Programme and a sum of Rs 3.39 million had been spent to implement such proposals of vegetable cultivations in Killinochchi and bee honey development in Welimada and Uva-Paranagama areas. However, it was observed that a sum of Rs 2.0 million granted to a private company who involved in bee honey development activities had deposited in a special account as at 31 December 2014 without being utilized it for intended purposes.

3.3 Issues on Financial Controls

The following observations are made.

- (a) According to the information received, the Microfinancing Component of the Programme had been discontinued since January 2014 and the recoveries of the microfinance loans granted by the Regional Development Bank aggregating to Rs.49.6 million had been remitted to the Domestic Operations

Department of the Central Bank of Sri Lanka and retained in a separate account as at 31 December 2014.

- (b) The Annual Work Plan and the Budget for the year under review shown in the Programme Design Report had been prepared component wise and the actual costs shown in the financial statements of the Programme could not be readily compared with the budgeted figures, due to differences in categorization of cost.
- (c) Annual Board of Survey in respect of the furniture and equipment had not been carried out to confirm the physical existence of the respective assets in terms of Financial Regulation No.756.