

National Agribusiness Development Programme - 2017

The audit of financial statements of the National Agribusiness Development Programme for the year ended 31 December 2017 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 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 Programme

According to the Financing Agreement of the National Agribusiness Development Programme, the Central Bank of Sri Lanka was the Lead Programme Agency and responsible 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 was the Lead Programme Agency and had overall responsible for implementation of the Programme by linking with ongoing “Divineguma Programme”. As decided by the Cabinet of Ministers at its meeting held on 30 April 2015, the activities of the Programme had been transferred to the Ministry of Rural Economic Affairs. Presently, the activities of this Programme are continued under the Secretary to the His Excellency the President. The objectives of the Programme are assist small holder farmers and the landless, especially the youth by (1) increasing their income 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 amounted to US\$ 32.9 million equivalent to Rs. 4,309.52 million and out of that US\$ 25 million equivalent to Rs 3,268.75 million was agreed to be provided by the International Fund for Agricultural Development. The balance of funds was expected to be contributed by the Government of Sri Lanka, Promoter Companies, Producers, Community Based Organizations and Participatory Financial Institutions. The Programme had commenced its activities on 01 February 2011 and scheduled to be completed by March 2016. The International Fund for Agricultural Development had agreed to reallocate the resources and extended the completion date of the Programme on 31 December 2017.

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 and International Fund for Agriculture Development Guidelines for Project Audits. 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 judgment, 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 Project.
- (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.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Financing Agreement.
- (e) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (f) Whether the funds, materials and equipment 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 the satisfactory measures had been taken by the management to rectify the issues were highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Financing Agreement had been complied with.

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, I am of opinion that,

- (a) the Programme had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards and IFAD Guidelines,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Programme and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure 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.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount Agreed for Financing in the Financing Agreement		Allocation made in the revised Budget Estimate for the year under review	Funds utilized during the year under review as at 31 December 2017			
	US\$ million	Rs. million		Rs. million	US\$ million	Rs. million	US\$ million
IFAD	25.00	3,268.75	1,235.00	7.05	1,077.60	19.33	2,839.91
Private Companies	5.25	686.44	-		301.31		406.01
CBOs	0.76	99.37	-		-		-
PFI	0.39	50.99	-		-		-
Producers	0.57	74.53	-		-		-
GOSL	0.99	129.44	50.00		44.98		65.93
Total	<u>32.96</u>	<u>4,309.52</u>	<u>1,285.00</u>	<u>7.05</u>	<u>1,423.89</u>	<u>19.33</u>	<u>3,311.85</u>

According to the above information, out of the allocation of US\$ 25 million equivalent to Rs.3,268.75 million, only US\$ 19.33 million equivalent to Rs.2,839.91 million had been utilized as at 31 December 2017. Further, the promoter companies had contributed only a sum of Rs.406.01 million, out of Rs.686.44 million had expected to be invested under the financial arrangements.

3.2 Physical Progress

The activities of the Programme was expected to be implemented under the components of Private Sector and Community Based Organizations led Marketing Chain Development and Linkages and providing microfinance and training for youth etc.,. The following observations are made.

- (a) It was observed that 02 promoter companies engaged in dairy farming and other 04 promoter companies engaged in agricultural industry had not obtained insurance coverage in favour of the outgrowers, according to the agreement entered by the Programme with the Promoter Companies.

- (b) According to the agreement entered into between the Programme and the Promoter Company to distribute monoline and rafts to 878 out growers of sea weed cultivation at a estimated cost of Rs. 34.27 million, only 667 monoline and rafts valued at Rs. 26 million had been distributed at the end of the period of the contract only on 21 December 2017. According to the explanations made, the target were not achieved due to adverse climatic conditions prevailed in most of the areas of operations of the Programme.
- (c) As per the information made available to audit, 20 Social Mobilizers had been deployed by the Programme to rectify the social and technical issues of the farmers involved in dairy farming. However, the site visits made by the auditors at the premises of the dairy farmers in Ratthota and Yatawatte in Matale district had revealed that the cattle sheds maintained by the farmers were not in good condition, due to lack of water supply system. Further, it was observed in site visit that the farmers in Yatawatte, Pallepola, Rattota and Naula in Matale district had not used the milking machines for the intended purpose, due to lack of electricity supply to cattle sheds constructed.
- (d) Further, the Promoter Company engaged in the Gherkin cultivation had not taken action to establish a Welfare Fund for out growers with the contribution of Rs.1.00 per kilogram of Gherkin sold by the out growers.
- (e) It was observed that 02 Promoter Companies engaged in the businesses on seed onion and organic maize had not taken action to procure the products of the farmers in Dabulla and Anuradhapura respectively during the year under review, eventhough it was required to buy entire production of the farmers.
- (f) It was observed that the farmers engaged in organic maize cultivation in Anuradhapura district had been selected at the initial stages by the promoter company without considering the their financial and physical capacities and as a result, process of loans could not be continued as enable to provide full benefits to the farmers.
- (g) It was observed that 02 branches of the Licensed Specialized Bank in Anuradhapura had taken action to recover the outstanding balances of the loans of the farmers obtained under other loan schemes from sub loans granted by the Programme, thus indicated that the financial assistance provided by the Programme had not been utilized for intended purpose of the cultivation of organic maize.
- (h) It was observed that the manufacturers of Kithul products in Eheliyagoda in Ratnapura district had not used utensils provided by the Programme, such as the stainless-steel pans for honey manufacturing purposes and stainless-steel container for storing honey, due to lower production of Kuthul products.
- (i) The physical site visit made in the areas of Jaffna, Kaththankudi and Kalmunai on test basis, it was observed that 05 borrowers had utilized funds provided for the purpose other than the intended purpose mentioned in applications and estimates submitted to the Banks for micro financing purposes.