

Climate Smart Irrigated Agriculture Project - 2020

The audit of financial statements of the Climate Smart Irrigated Agriculture Project for the year ended 31 December 2020 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 III (ii) of the Disbursement and Financial Information Letter and Financing Agreement No 6346-LK dated 11 April 2019 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 Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the project, the Ministry of Agriculture is the Executing Agency and International Development Association is the Implementing Agency of the Project.

The objectives of the Project are to improve the productivity and climate resilience of small holder agriculture in selected hotspots area. The activities of the Project are implemented under three components namely Agriculture Production & Marketing, Water for Agriculture and Project Management.

As per the Loan Agreement, the estimated total cost of the Project was US\$ 140 million equivalent to Rs. 25,200 million and out of that US\$ 125 million equivalent to Rs. 22,500 million was agreed to be financed by International Development Association. The balance amount US\$ 15 million equivalent to Rs 2,700 Million is expected to be financed by the Government of Sri Lanka and Beneficiaries.

The Project had commenced its activities on 07 May 2019 and scheduled to be completed by 30 June 2024.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, 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 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 scepticism 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. Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non Compliance/ Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Section 34 of the Project Appraisal Document.	Although it was required to establish and maintain Management Information System (MIS) as per this Section enabling timely review and appraise, no such System had been established by the Project even as at 30 June 2021.	Initial discussion with regard to MIS was held and the establishment was delayed due to prevailing pandemic situation. Action will be taken to establish the system in 3 months period.	Management Information System should be established without delay.
(b)	Management Service Circular No 01/2016 dated 15 of March 2019 Issued by the Secretary of the Ministry of Finance.	The Project Steering Committee (PSC) should be met once in two months. However, none of the Steering Committee meetings of the Project had been conducted during the year under review.	Agreed. PSC could not be organized due to prevailing pandemic situation and turbulences of the project.	Project steering committee meeting should be held timely as per instruction of the circular.
(c)	Annexure 2, Sub section 21 of the Project Appraisal Document.	Sufficient Internal Audit had not been carried out during the year under review as per the Project Appraisal Document.	Agreed. Some of the development activities were audited by the internal audit unit of the Ministry of Agriculture.	The internal audit should be carried out by internal audit unit of the respective Line Ministry
(d)	Circular No 01/2016 dated 24 of March 2016 issued by the Department of Management Services.	Contra to advise given by the Department of Management Services Circular No. 01/2016 dated 24 March 2016 four Specialist, had been recruited on full time and part time basis without checking the basic educational, professional qualifications and experience.	Provincial recruitments were done initially considering the applications received at the time of recruitment to run the project smoothly. Action has been taken to rectify the situation as appropriate.	Minimum educational and professional qualification as well as the experiences should be considered by the Project Management Unit when making recruitments.

03. Physical Performance

3.1 Delays in Completion of Activities of the Project

No	Activity	Date schedule to be Commenced	Date Scheduled to be completed	Delay	Response of the Management	Auditor's Recommendation
(a)	Modernization of 04 Agrarian Services Centres in the Hambantota District	27 February 2020	18 December 2020	06 Month	Two ASC have been completed 95 percent of work in the third has been also completed. The advance payment made was fully recovered. Project is reviewing the situation of the fourth.	An action should be taken to accelerate the work.
(b)	Modernization of 04 Agrarian Services Centres in Mullaitivu District	14 September 2020	06 July 2021	06 Month	Mullative package was offered only during the last quarter of the year. Presently, over 50 percent of work has been completed in three ASCs and 25 percent work completed in the other ASC.	An action should be taken to accelerate the project activities.
(c)	Modernization of 04 Agrarian Services Centres in Ampara District	23 September 2020	06 July 2021	01 month	Work has been commenced in all ASCs in Ampara. Work completed in two centers and 30 percent work has been completed in other two centers.	An action should be taken to accelerate the project activities.

3.2 Extraneous Activities of the Project

Audit Issue

A sum of Rs.24 million had been paid to 54 Government and Semi-government officers who were recruited on a part-time basis without maintaining an attendance register to record their attendance and without proper assessment of the time worked in the Project as well as assessment of contribution.

Response of the Management

Attendance registers are being maintained at all provincial units. At PMU a finger print was recorded and it was missed due to shifting of the location of PMU.

Auditor's Recommendation

Proper system should be maintained to record attendance.

3.3 Issues Related to Human Resources Management

No

Audit Issue

Management Response

Auditor's Recommendations

- (a) The Key positions in the project such as Project Director, Engineer on Water Management, Operation Management, Procurement Specialist, Hydrologist and Water Resource Development Specialist had not been recruited.
- (b) According to the Public Administration Circulars Nos. 09/2009 and 09/2009 (1) dated 16 April 2009 and 17 June 2009, fingerprint machines had not been used to record the attendance of the Project Management Unit staff.

No recruitments were made during the early period due to budget circular. However, with the new understanding action have been taken to fill the vacancies.

Agreed. Action will be taken to use a finger print machine.

The key post of the project must be filled without delay.

Finger print machine should be established by the Project Management unit without delay.