

## **Smallholder Agribusiness Partnerships Programme (SAPP) - 2020**

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The audit of financial statements of the Smallholder Agribusiness Partnerships Programme (SAPP) 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 of 9.03 of the Loan Agreement No.2000001843 dated 26 June 2017, the Loan Agreement No.2000001984 dated 21 November 2017 and the Loan Agreement No.2000002639 dated 16 May 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agriculture Development (IFAD). 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**

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According to the Loan Agreement of the Project, the Ministry of Agriculture is the Executing Agency and the Project Management Unit established for SAPP is the Implementing Agency of the Project. The objectives of the Project are to sustainably increase the income and quality of diet of 57,000 smallholder households involved in commercially-oriented production and marketing system. The activities of the Project are implemented under three components namely Access to Commercial Partnership, Access to Rural Finance and Program management and Policy Dialogue. As per the Loan Agreement, the estimated total cost of the Project was US\$ 105.03 million equivalent to Rs.17,170 million and out of that US\$ 54.4 million equivalent to Rs.8,892 million was agreed to be financed by International Fund for Agriculture Development. The balance amount of Rs.8,278 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 26 June 2017 and scheduled to be completed by 30 June 2023.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.4 Basis for Opinion**

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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**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines in 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**

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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. Comments on Financial Statements

### 2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount Rs.million	Responses of the Management	Auditor's Recommendations
(a)	A proper reporting method had not been followed by the program to calculate the beneficiary's contribution. Due to this reason beneficiary's contribution taken to the financial statements could not be satisfactorily examined or accepted in audit.	73.7	Procedures that are followed are agreed with IFAD and mentioned in the approved Project Implementing Manual.	A proper method should be identified by the project to calculate the contribution of beneficiary and clearly stated in the financial statements.
(b)	The value of the three vehicles used by the project since the beginning of the year 2020 had not been taken into the financial statements.	Unavailable	Ownership of these two vehicles was transferred to SAPP on 29 May 2020 and has been requested to value from the Department of Valuation. Once received the valuation reports, steps will be taken to record in the Books of Accounts.	The value of these three motor vehicles should be taken in to account after obtaining the ownership.
(c)	Assets had been valued in various method, without using a standardized valuation method for valuing the fixed assets of the project in the financial statements.	72.7	Steps will be taken to value all the assets belonged to SAPP from the Department of Valuation and record in the books of Accounts.	The actual value of the fixed assets should be valued by using same valuation method and disclosed in the financial statements as well.

### 2.2 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka	Even though a Board of Survey should be conducted for each financial year, the project had not appointed such a Board of Survey for the year under review.	Steps have been taken to carry out the BOS in the coming months.	An action should be taken to conduct the board of survey for each and every financial year.

### 3. Physical Performance

#### 3.1 Physical Progress of the Activities of the Project

	<b>Audit Issues</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	The Project had entered into 25 4P agreements to provide benefits to 21,823 beneficiaries and a sum of Rs. 1,778 million had been allocated at the end of 2020. However, the Project had provided benefits to 13,871 beneficiaries only by using allocation of Rs.340 million representing 63 percent of expected beneficiaries and 19 percent of the allocated fund.	Most of the projects are in the middle of the implementation and some are completed. By now 77% of agreed number of farmers are physically engaged and out of them 64% of farmers have been issued grants. 27% of the agreed grant amount have been issued to 49% of agreed number of farmer by now.	PMU should acquire both physical and financial progress simultaneously.
(b)	The Project had allocated Rs.74 million from GOSL fund as a credit under the Component 02 - "Access to Rural Financial" for the year under review. The purpose of this component is to facilitate access to rural financial services in a sustainable manner and at affordable rates for the beneficiaries. However, any amount had not been used for the credit during the year under review as budgeted.	Although SAPP has planned to complete IFAD credit line during the year 2020 and request a small allocation from RF (only 73.9 mn) the allocated amount couldn't be utilized due to Covid restrictions in field activities and lack of staff in the banks to cater the demand. However in 2021, farmers are registering under RF and by now Rs. 284 mn has been released to CBSL for refinancing.	The project activities should be properly monitored and accelerated.

#### 3.2 Matters in Contentious Nature

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The Project office was relocated on 22 May 2020 from a rented building in Rajagiriya to another rented building. Due to the termination of the lease agreement of the old building, the Project had to write off a refundable deposit of Rs. 3.2 million. Also, due to the relocation of the office, parts of the office building worth Rs. 6.8 million which are no longer required for the Project were handed over to the Sri Lanka Army. The impact of this event on the project was contrary to the objectives of the Project.	Programme Management had to adhere the directives given by the Line Ministry. However all the health measures were followed by SAPP during the time of shifting. As explained in the former report to 2019 audit, this decision has been taken to adhere to the advice given by the Lead Program Agency - Ministry of Agriculture and also to reduce the loss to the Government.	Decisions must be taken to minimize losses and damage to the Project.