

Agriculture Sector Modernization Project -Part 02 - 2020

The audit of financial statements of the Agriculture Sector Modernization Project -Part 02 for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies 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 II, 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 report to 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 Jaffna, 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\$ 642.87 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, the accompanying financial statements give a true and fair view of the financial position Project as at 31 December 2020 and its cash flows for the year then ended in accordance with the 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 this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibility of the Management for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines as necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project, s financial reporting process

2. Commence on the Financial Statements

2.1 Non-compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non- compliances	Responses of the Management	Auditor's Recommendations
(a)	Circular No. 02/2016 of 10 June 2016 of the Department of Management Audit.	Action had not been taken to recruit an Internal Auditor by the Project	Not replied	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.
(b)	Circular No. 01/2019 dated 15 March 2019 of Department of Management Service	The Steering Committee Meetings had not been conducted during the year under review as per the Circular Instruction.	Not replied	Need to comply with circular instructions.

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	Responses of the Management	Auditor's Recommendations
(a) Modern Agriculture Technology Parks	Recruitment of International Service Provider	The physical progress of the component was remained behind the expected targets at the end of the year. As a result, smooth function of all the activities of the Project had affected and get delay.	Not replied	Need to maintain proper coordination with international service provider and prompt action need to be taken to catch up delayed activities.

(b)	Analytical and Policy Advisory Support	Policy Development	08 contracts had been awarded to consultancy firms at an estimated cost of Rs. 69.55 million and a sum of Rs. 55.5 million had been paid during the year under review. However, the final reports thereon had not been submitted	Not replied	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)	Farmer Training and Capacity Building	Farmer training	As the training on agricultural activities in the Modern Agricultural Technology Parks was carried out before the award of the garden construction contract. Therefore, the expenditure incurred in the year 2018, 2019 and 2020 amounting to Rs. 45.76 million had become fruitless expenditure.	Not replied	Need to adhere with scope of the Project.
(d)	Production and Market Infrastructure	Upgrade and rehabilitates production and market infrastructures	A sum of US\$ 6.15 million was spent on rehabilitating rural roads, rural tanks, agricultural wells and storage facilities under pilot project areas, due to delays in appointing an international service provider that were not covered by the Project component.	Not replied	Action to be taken to adhere with objectives mentioned in the Project Appraisal Document in order to achieve the objectives of the Project.

3.2 Contract Administration

The following observations are made.

No.	Audit Issues -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Eventhough a feasibility study report was required to be submitted within 4 months of the commencement of the International Service Provision Agreement, the report was submitted with 02 months delay. However, the necessary approval for it had not been granted. In addition, four long-term key consultant should be deployed. However, only one key consultant had been appointed and a sum of Rs. 183.33 million had been paid at the end of the year under review.	Not replied	The close supervision is needed on the activities implemented by the service provider.
(b)	The contract for design, development, installation and maintenance of a beneficiary information system was awarded on 28 October 2018 at an estimated cost of Rs. 8.25 million and Rs. 1.65 million had been paid in the year 2019. However, the work had not been completed.	Not replied	The action is required to be taken to influence the contractor to comply the requirements of the contract agreement.
(c)	Eventhough the contracts for Agrarian Business School training and Agrarian Producers' Association training at a cost of Rs. 101 million and Rs. 46 million had been awarded in the year 2019 and 2020, the relevant training programs had not been carried out to the required level. Regardless of this situation, another Agreement a cost of Rs.36 million had been signed with the contractor for farmer business school training in January 2020.	Not replied	The action is required to be taken to influence the service provider to comply the requirements of the contract agreement.
(d)	According to the audit test check carried out in Uva province, the construction works at 05 contract valued at Rs. 127 million to be completed at the end of the year 2019 as per the contract agreement. However, respective works had not been completed even by 31 December 2020.	Not replied	Need to take action to catch – up the delays and ensure to complete the contract works timely to avoid additional cost.

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| (e) | The contract for the value chain analysis and market assessment in pilot project had been awarded at an estimated cost of Rs. 5.86 million to a consultancy firm in 01 January 2019 and expected to be completed by 31 March 2019. According to the information available, the respective works had not been completed even on the date of audit on 31 January 2021. However, a sum of Rs 3.51 million had been paid thereon at the end of the year under review. | Not replied | The action is required to be taken to influence the consultancy firms to comply the requirements of the contracts agreements. |
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3.3 Observations made on Site Visit

No.	Audit Issues	Responses of the Management	Auditor's Recommendations
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(a)	According to the project proposal, Rs. 39 million had been spent for Moringa cultivation, to obtain a yield of 18,000 kg per acre from the 2nd year, However, according to the physical Inspection conducted in Monaragala district on 03 February 2021, the expected yield could not be obtained, due to slow growth of plants and damage to the cultivation.	Not replied	The Project Monitoring Unit is required to adopt proper monitoring and supervision mechanism over the activities.
(b)	The Project had spent a sum of Rs. 47.33 million for cultivations of Aloe vera in Anuradapura and Polonnaruwa districts. However, the expected yield could not be achieved, due to drought prevailed in February 2020 and heavy rain prevailed in February 2021.	Not replied	The Project Monitoring Unit is required to adopt proper monitoring and supervision mechanism over the activities.
(c)	Although the agriculture machinery were purchased during the year under review by Rs. 141 million to hand over for Ampara, Anuradhapura, Badulla, Matale and Moneragala Provincial Project Management Offices, were idle for more than 7 months during the year under review due to incomplete of farmers selection process.	Not replied	Before awarding the contracts, the real requirements of farmer machineries and equipment should be assessed properly.

3.4 Underutilized Resources

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
The Project expanded its Geographical Coverage including Badulla, Kilinochchi, Ampara and Vavuniya in year 2020 with intention of getting the Euro 25 million grants from the European Union. However, it had not been received even up to the date of audit on 10 February 2021.	Not replied	Action should be taken to adhere with targets stipulated in the Project.

3.5 Matters in Contentious Nature

No	Audit Issues -----	Responses of the Management -----	Auditor's Recommendations -----
(a)	Eventhough a sum of Rs. 3.6 million had been incurred on Guava and Banana export programme during the year under review, no any guava or banana had been exported even the date of audit on 10 February 2021.	Not replied	The action is required to be taken to influence the service provider to comply the requirements of the contract.
(b)	The Project had not prepared masters procurement plan covering all the activities during the Project period. As a result, farmer machineries and equipment which were distributed among farmers had been procured throughout the year.	Not replied	Project should be prepared master procurement plan