

## **Climate Smart Irrigated Agriculture Project - 2022**

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The audit of financial statements of the Climate Smart Irrigated Agriculture Project for the year ended 31 December 2022 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 Loan 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, 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\$ 100 million equivalent to Rs. 26,829 million was agreed to be financed by International Development Association. The balance amount of Rs. 4,024.35 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 07 May 2019 and scheduled to be completed by 30 June 2024.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the 2.1 section of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, statement of expenditure 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 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**

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. Comments on Financial Statements

### 2.1 Accounting Deficiencies

<b>Accounting Deficiency</b>	<b>Amount Rs. Mn</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The Parity adjustments relating to the foreign loan of the project had not been accounted for the year under review, therefore the loan balance does not reflect the fair value as at the balance sheet date.	4,829	Management has not been given an opportunity to comment as this fact has been included while preparing the final report.	The parity adjustment should be accounted as per changes in Foreign Exchange rates.

## 2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendations
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
	i. F.R. 103 and 104	According to the Financial Regulation, further action except appointment of committee for Preliminary Investigation had not been taken for the loss of laptop computer valued at Rs.144,300 which occurred in 2021 by 31 December 2022.	As soon as information is received, the preliminary investigation committee was appointed. But the investigation could not be completed. It will be completed within two months period.	Action should be taken according to Financial Regulation in relation to damages and losses.
	ii. F.R. 502(2)	Receipt Order and Issue Order which should be issued when receiving and issuing inventory items and fixed asset has not used from the beginning of the Project and a Fixed Asset Register has not been maintained by the Project.	Agree with the observation. A process related to issue orders has been rectified. A fixed asset register is not maintained by the project.	Records should be maintained as per receiving and issuing inventory items.
	iii. F.R. 756	The Annual Board of Survey should be appointed on or around December 15 of every year, however Annual Board of Survey had not been appointed to check inventory goods valued of Rs.95 million of Property, Plant and Equipment and the Reports of Board of the survey have not been submitted to the audit.	Agree with the observation. According to my letter No. MOA/CSIAP/PMU/FM/39 .I and dated 02-01-2023, the annual Board of survey has been appointed to carry out to survey duty. There is no fixed asset register to CSIAP project but other registers are maintaining.	The Annual Board of Survey should be carried out according to The Financial Regulation.

- (b) Circular No 01/2019 dated 15 March 2019 issued by the Department of Management Services of Project Steering Committee should be held once in two month. However, only three Project Steering Committees had been held during the year under review. The power and responsibility of convening this committee rests with the Ministry of Agriculture. The Ministry has given several opportunities for this. According to those occasions, the relevant meetings have been held. Action should be taken according to the Department of Management Services circular.

### 3. Physical Performance

#### 3.1 progress of the activities of the Project

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Out of the 42 activities included in the 2022 action plan, 14 activities had achieved less than 50 percent physical progress as at 31 December 2022.	Those activities are going on. They were delayed due to weakness of training programmes and not proper planning.	Beneficiaries should be identified properly. Trainings should be completed within the prescribed period.
(b)	Out of the 42 activities included in the 2022 action plan, 6 activities had achieved less than 51 percent to 75 percent physical progress as at 31 December 2022.	Those activities are going on. They were delayed due to weakness of training programmes and not proper planning.	Beneficiaries should be identified properly. Trainings should be completed within the prescribed period.

#### 3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
The Project has made payment advance for Modernization of Agrarian Service Centers in Mullaitivu district and Monaragala District on 28 October 2020. However, the Modernization of Agrarian Service Centers had not been conducted.	Modernization of Agrarian Service Centres in Mullaitivu district has been delayed due to various reasons. Contracts have been awarded as a package for 03 Agrarian service Centers of Buttala, Wellawaya and Thelulla in Monaragala district. The proposed construction of Telulla Agrarian Services Centre has not been carried out because of no road access and flooding the construction site with rain water. After that, it was planned to build it in another place however it could not be built due to the lack of approval. However, the above-mentioned amount has been deducted from the payments of the remaining two Agrarian service Centres.	Tasks of the project should be properly planned and managed in such a way that they can be achieved.

### 3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Even though the Project has purchased 48 of laptops amounted Rs.24.5 million valued which was high quality featured with Intel core i7 and 16 GB memory for purpose of official usage of Technical officers (TO), Senior Technical Officers (STO) and Engineers. It was observed that 33 out of 48 laptops were distributed among other post outside of the purpose.	Agree with the observation. These computers are already being used by officers as needed and there has been no wastage of resources.	Assets should be acquired on proper plans.
(b)	A building of 7020 sq had been leased for the Project Monitoring Unit and Rs. 960,000 had been overpaid as at the date of audit on 15 May 2023 due to violation of the report of the government assessor and exceeding the market value. Since only 32 employees were used this building, about 219 square feet was used for one employees and this building is located about 4 km away from Borella Battaramulla main road, more time and extra cost has to be spent for transportation.	Considering the fact that there is a space with parking facility for about 10 vehicles and the size of the square feet, the relevant payments have been made. Rs. 660,000 is the value relating to the square footage of the building only.  Kindly point out those buildings with the above-mentioned prices and facilities cannot be found around Borella and Battaramulla.	Acquisition of assets and entering into contracts should be done more effectively, accurately and minimum transportation cost.
(c)	There was a loss of Rs.7.6 million relating to the award of the procurement for the purchase and distribution of 15,762 sets of turmeric, ginger and fruit seedlings for the home gardening program in Kurunegala district due to rejecting of the lowest bid amounted Rs.12.9 million without the recommendations of the Technology Evaluation Committee and two bidders were awarded at Rs.20.5 million. Further, one of the three members of the procurement committee had refused to sign the procurement awarding. The member had complained in writing to the Ministry Secretary on 21 November 2021 that the signature of the member who did not sign the procurement decision had been forged and the Ministry Secretary had not conducted any investigation on	If one of the three members of the procurement committee does not agree, in such a case, it can proceed Procurement. By not carrying out those activities, the said officer has neglected his responsibilities.  In this regard, the reports issued by an internal auditor of the Ministry of Agriculture have recommended that preliminary investigations be carried out. Based on those recommendations, we have appointed preliminary investigation committees.	The Project should act as per the instructions in the procurement guidelines and should be done in a manner that would maximize efficiency for the government and recover damages from the responsible parties.

the matter. The procurement decision was announced with only two signatures after informing the secretary that the procurement decision was forged. It was also observed that payments had been made by the Project Director in Kurunegala without a single signature on the procurement decision, contrary to Finance Regulation 135(2).

- (d) The supplier selected for the procurement had agreed to supply a 25 kg bag of compost fertilizer with transportation at Rs.490 but on 14 August 2022, it was informed that this company was unable to provide the relevant fertilizer stock. On 16 August 2022, the procurement committee re-evaluated the related decision. Noting that the supplier who was not selected in the first evaluation has an experience in the relevant field in the second evaluation, regardless of market prevailing prices or re-quotation, the bid was awarded to buy a 25 kg bag of fertilizer at Rs.950 each.
- In this regard, the reports issued by an internal auditor of the Ministry of Agriculture have recommended that preliminary investigations be carried out. Based on those recommendations, we have appointed preliminary investigation committees. After receiving the report of the investigation committee, I will provide answers for this.
- Comply to the procurement guidelines and should act in a manner that would maximize efficiency for the government and recover damages from the responsible parties.
- (i) The relevant stock of fertilizer were provided in three times and before making payment for the stock of 7,964 bags of fertilizer provided in the second time, according to the analysis report (SLS.1635:2019) submitted by the Department of Agriculture-Peradeniya, it was mentioned that the parameters were not in accordance with the SLS value. Irrespective of that notification, Rs.14,973,900 was paid for the total amount of fertilizer.
- (ii) The basis selected by the farmers who gave this fertilizer stock and the name list of the farmers who were issued, the signature documents were not submitted and were not included in the stock books.

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| (e) | Under the Accelerated Agriculture Program in Anuradhapura Ranorawa, Mahanikawa, 19 farmers were selected to cultivate chillies on ¼ acre of land per farmer and Rs.2.7 million has been incurred for the project. But when the project was physically inspected, only one farmer was engaged in chili cultivation and the other 18 farmers had left chili cultivation. Thus the expenditure incurred has become idle. | Agree with the observation. Firstly, 19 farmers were trained in chilli cultivation. After that they were directed for chilli cultivation. As whiteflies caused damage to the chilli crop, the crop was destroyed. In addition, due to the shortage of fertilizers farmers left chilli cultivation and turned to other crops. | Proper planning should be done prior to initiation of project. Correct instructions should be given to the beneficiaries and monitoring should be done properly. |
| (f) | Under the Accelerated Agriculture Program in Anuradhapura Ranorawa, Mahanikawa, Rs.244,208 has been spent for mango cultivation for 16 farmers ½ acre each, Rs.828,100 has been spent for orange cultivation for 44 farmers ½ acre each and Rs.160,866 had been spent for two farmers for guava cultivation. These projects had failed due to lack of proper instructions and lack of follow-up.                      | Actions have already been taken towards observations pointed out by the Chief Internal Auditor. A complete answer will sent after scrutinizing the files and documents related to these issues and provide clarifications promptly.  | Proper planning should be done prior to initiation of project. Correct instructions should be given to the beneficiaries and monitoring should be done properly. |
| (g) | The North Central Province Deputy Project Director Office had not submitted reports or written notes on the release of 1,175 kg of the 3,000 kg green bean seeds purchased on credit basis from the government seed farms to the audit.   | Actions have already been taken towards observations pointed out by the Chief Internal Auditor. A complete answer will sent after scrutinizing the files and documents related to these issues and provide clarifications promptly.  | Records should be maintained accurately and recover for unreported values from responsible parties.  |

### 3.4 Issues Related to Human Resources Management

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
It was observed that letter of duty list was not issued to staff members	There are 33 subject specialists (PS 1 to PS 3) working in the Project and all of them have duty lists. The Project Director has instructed the specialist of the relevant sections to provide duty lists to relevant staff before 6 June 2023.	All employees should be given duty lists.