

Climate Smart Irrigated Agriculture Project - 2023

The audit of financial statements of the Climate Smart Irrigated Agriculture Project for the year ended 31 December 2023 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\$ 100 million equivalent to Rs. 26,829 million and out of that US\$ 85 million equivalent to Rs. 22,804.65 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 and beneficiaries.

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 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 2023, statement of expenditure and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principle.

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 Principle 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

No	Accounting Deficiency / Audit Issue	Response of the Management	Auditor's Recommendations
(a)	It was observed that the total beneficiary contribution related to cultivation well was overstated by Rs.23 million in the financial statements due to the erroneously adding both of component of the estimated total cost and the project incurred cost in the Southern Province.	Agree with the observation. This error has occurred in calculation. It will be corrected in the accounts of year 2024.	Beneficiary contribution should be calculated accurately.

- (b) When calculating beneficiary contribution related to purchasing seeds in Eastern Province, it was observed that value of beneficiary contribution calculated from July to December 2023 was not taken for total value of beneficiary contribution. As a result, the total beneficiary contribution in the Eastern Province was underestimated by Rs.3 million.
- Agree with the observation. Beneficiary contribution should be calculated accurately. It will be corrected in preparation of accounts for the year 2024.
- (c) According to LKAS 38, although intangible asset should be classified separately from tangible asset, costs incurred on Accounting Software and Management Information System amounting to Rs.3.92 million and Rs.10.98 million respectively were classified as tangible assets in the financial statements of the project.
- Agree with the observation. Intangible assets should be recorded as per Sri Lanka Accounting Standards. According to your observation, will be arranged to show it separately in the presentation of accounts for the year 2024.

2.2 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 Recommendations
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka - F.R. 103 and F.R. 104(4)	The action had not been taken according to the Financial Regulation relating to the lost of laptop computers.	The investigation under F.R. 103 (1) was delayed due to non-performance of initial investigation committee appointed at the beginning.	Follow up and take actions to recover balance of loss from relevant officers.
(b)	Circular No 01/2019 dated 15 March 2019 issued by the Department of Management Services	Project Steering Committee (PSC) meeting should be held once in two months. However, only three Project Steering Committees meeting had been held during the year under review.	As per the circular number 2019/01, the Ministry of Agriculture holds the power and responsibility of calling the National Steering Committee. Accordingly, the committee has been called 3 times in 2023, by the Ministry.	According to the Circular, Project Steering Committee (PSC) meeting should be held once in two months.

- (c) Circular No 01/2022 dated 07 February 2022 issued by the Department of Management Audit Project Internal Audit Committee meeting should be held in first and third quarter. However, none of meeting had been held during the year under review. The management has not provided answer. Internal Audit Committee meetings should be held in according to the circular.

3. Physical Performance

3.1 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	A contract was made with a private construction company for the construction of threshing floors of Kelanika wewa and Mee Kumbuk Wewa from the allocations provided by the Project for 620 of budget heads which is Ministry of Agriculture in North Central Province. The contract value for the construction of the Kelanika Wewa thresher was Rs. 4.5 million and the value of advance given to the contractor was Rs.1,363,288. The construction of Kelanika wewa threshing floor had not commenced as at 31 December 2023. The contract value of construction of the Mee Kumbuk Wewa threshing floor was Rs.4,685,627 and 30 percent of contract value amounted of Rs.1,405,688 had been made advance to the contractor. The validity period of the advance bond had passed on 16 May 2022. . The construction of Mee Kumbuk Wewa threshing floor had not commenced as at 31 December 2023.	Under the project implemented through the Department of Agrarian Development for establishment of drying floors, Construction Company has been entered into a contract to construct 02 drying floors at Kelanika wewa and Meekubukwewa in 2021. Accordingly, in December 2021, Rs.1,363,287 was paid to Kelanika wewa and Rs.1,405,688 to Meekumbukwewa as mobilization advances for commencing the construction of drying floors. Rs: 500,000.00 were repaid through cheque number 530457 dated 12/06/2023 and Rs: 500,000.00 has been made again by check No: 570209 dated 22/03/2024.	The tasks of the project managed formally and funds should be used properly. Disciplinary action should be taken against inefficient officials. Actions should be taken to recover the losses.
(b)	It was contracted with Private company on 02 August 2022 for Construction of Ambagas wewa threshing floor valued Rs.6,530,461 which was provided through Project for the 620 of budget heads that is Ministry of Agriculture of North Central Province. Suitable land for construction of threshing floor had not been selected and acquired by the Procurement entity before entering into the contract. 20 percent of the contract price on advance bond of Rs. 1,306,093 was paid to the contractor and	Agree with the observation.	Proper planning should be done before starting the construction work. Funds of the project should be used sparingly.

validity period of advance bond had been expired on 30 October 2023. The date was extended till 28 December 2023 without taking over the advance bond.

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| (c) | <p>It was contracted with private company for Construction of Diwul wewa threshing floor valued Rs.6,530,461 which exceed than the engineering estimate of Rs.5,515,810 from the provisions provided by the Project for the 620 budget heads of Ministry of Agriculture in North Central Province. When awarding the contract, the lowest bidder had not been considered. Although a period of 120 days had been given for the completion of this project as per the agreement, the Anuradhapura Deputy Commissioner of Agricultural Development had given extensions of a total of 390 days on four occasions. By October 2023, the work had not been formally handed over. During the physical inspection of the construction of the Diwul wewa threshing floor, the construction as indicated under BOQ item No. 06,07,09 was found to be non-standard.</p> | <p>A contract has been entered into with Sierra Global for the construction of Divulwewa drying floor at a contract value of Rs: 6,395,461. A mobilization advance of Rs: 1,267,792 has been received on 05.11.2022 and payments for bills of Rs: 2,349,671 have been made by 31.12.2023. It has been reported that the physical progress is about 95 percent.</p> | <p>The constructions should be completed within the stipulated time frame. Incomplete work and parts should be corrected or the damages should be recovered.</p> |
| (d) | <p>The establishment of an office at the work site, deployment of a guard and installation of boundary stones during the renovations of Meegasdigiliya Wewa and Olupadura Wewa were not completed from the allocations received from the Project for budget heading No. 620 of the Ministry of Agriculture in North Central Province. Insecticides were used instead of termite nests removal at 15 places on the bund of Meegasdiliya Wewa and 11 places on the bund of Olupadura Wewa. Even after the using of insecticidal liquid, termite nests had arisen out. Accordingly, renovations of tanks of Meegasdigiliya and Olupadura were not successful.</p> | <p>Megasdigiliya and some places of Olupat tank bund were under the grip of termites and measures were taken to control the situation by using insecticides. As indicated in the audit observation, efforts were made to prevent the emergence of termites from other places. However, it is informed that, the work for this project has been completed as agreed.</p> | <p>Irrigation Department's guidelines for termite removal in tank bund should be implemented. Insecticides should not be added to the irrigation system.</p> |
| (e) | <p>It was planned to develop 80 tanks under 05 Cascade systems in Puttalam district under an estimation of Rs.613 million through the Project. Contracts under an estimation at Rs.475 million had been given for the development of 30 tanks and the development of 50 tanks had</p> | <p>The number of tanks to be developed in Puttalam district had to be reduced to 30 tanks and the development of remaining tanks had to be abandoned in 02 cases, due to</p> | <p>Tanks under 05 Cascade systems should be completed on time as planned.</p> |

been abandoned. Although the contract period of Walaswewa, Devala Kanda wewa, Saliya wewa, Pansala wewa, Jayanthi wewa and Tammannawa wewa, tanks which had been started under the supervision of the Agricultural District Office of Puttalam District has expired, the renovation works were not completed.

decrease in the amount of dollars allocated for the project. The 06 tanks, developed under the supervision of the Department of Agrarian Development, Puttalam, have been handed over to the Department of Agrarian Development after completion of the work.

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| (f) | Contracts were given for the development of 07 tanks on an estimate of Rs. 63 million in Puttalam district by the Irrigation Department of North Western Province under the provisions of the Climate Smart Irrigated Agriculture Project. Although the validity period of that agreement has passed, the development work of 07 tanks has not been completed by 31 December 2023. | The 07 tanks which were repaired under the supervision of the Department of Irrigation, North Western Province, had been formally handed over to the concerned institution after completing the work. | The tank development tasks should be completed within the contractual period. |
| (g) | Under the provisions of Climate Smart Irrigated Agriculture Project, 04 contracts valued Rs.222 million were awarded for the development of 12 tanks by the North West Provincial Engineering Department (Puttalam). Despite exceeding the agreement period, the development works of 7 tanks were not completed by 31 December 2023. | Contracts have been entered into for developing 12 tanks under the supervision of the Department of Engineering, North Western Province. Except 03 tanks, the remaining 09 tanks have been formally handed over to the relevant institution. The physical progress of the other 03 tanks is more than 95 percent. | The development work to be done with the funds of the project should be done within the stipulated time. Reasons for delay should be investigated and late fee should be charged. |

3.2 Idle/ Unutilized/ Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	189 mechanical planting machines, 189 mechanical weeding machines and 95 seed planting machines were provided for 47 Agrarian Service Centers in 10 districts of the island with the aim of introducing the most suitable technology for paddy farming and Rs.215.43 million had been spent for that. Out of which, Rs.21 million costing 35 planting machines, 32 weeding machines and 15 seed planting machines as total of	When consider the total number of Transplanter machines (189 Nos.) provided to the 47 ASCs, the Paddy planting progress up to 2023/24 Maha Season is 495.6 acres by 258 Farmers using 115 machines, which is 61 percentage usage compared to the total number of Transplanters. Also, when consider the up-to-date transplanting progress of the NWP, they have planted 283.8 Acs by using	Machinery should be introduced in a manner suitable to the type of paddy cultivated, the needs of the farmers and suitable to the farm land. Efforts should be made to collect the loss from the officials who have taken action to get the idle machines.

82 machines were provided for 8 Agrarian Service Centers in Kurunegala district without the need and request of Agrarian Service Centers (Rajanganaya Left bund, Tambuththa, Galgamuwa, Mahananperiya, Rambe, Ahetuwewa, Ambaspola, Moragollagama). After 3 cropping seasons after providing those machines, By December 2023, only 118 farmers had cultivated 182.73 acres for all three seasons. 14 out of 35 planting machines from the provided machines were not used even once due to the agricultural machines not being suitable for cultivation. 13 of the 32 weeding machines provided were not used even once and 14 of the 15 seed planting machines provided were not used even once. Used machines were used only once or twice. Accordingly, the costs incurred were useless.

- (b) Rs.61 million worth of agricultural machinery equipment was provided to 12 Agricultural Service Centers in the North Central Province through the North Central Province Project Office. The machines were given as 02 harvesting machines, 40 planters, 40 weeding machines and 20 Seed planting machines. The machines were parked in the Agrarian Service Centers without being used due to inconsistencies with the needs of the farmers and the cultivated land. Accordingly, the expenditure incurred was useless.

27 Transplanter machines by 162 farmers.

Hence, it is convinced, the usage of Transplanters and Power Weeders are gradually increasing, which leads to increase Paddy yield, while saving labour cost and Agro chemical costs.

Agriculture Machinery Unit was initially planned as a pilot project under public private partnership and a manufacturing company in the Parangiyawadiya Agrarian Services Center, but the program was delayed for about a year due to not receiving the approval. At present, equipment storage rooms have been built for the 9 Agrarian Services centers and arrangements have been made to store the equipment in an orderly manner. Also, a report regarding the equipment used and not used in this season (18 planters and 16 weeders) has been sent to the Head Office. The unused equipment will be sent to other places. 2 Combined Harvesters have been used for harvesting, after some repair. From this, an income of 9 lakhs has been obtained during Maha 2023/24. Necessary steps have been taken and programs have been planned to popularize these machines among farmers.

Investigations should be conducted against officials involved in the procurement of machines that do not suit the needs of farmers and farmlands and recover damages.

- (c) In the year 2022, Rs.139 million was estimated for the construction of a 223.3 km long elephant fence covering 58 Yayas related to 04 divisional secretariats of Puttalam district by the Climate Smart Irrigated Agriculture Project. The materials and equipment required for the construction of elephant fence were purchased and stored at the Thabbowa Agricultural Service Center until 31 December 2023 without constructing the elephant fence.
- The Equipment was supplied step by step and the final lot of equipment was handed over by the supplier on 06.07.2023 as per the contract agreement. Seasonal cultivation fences were proposed to be implemented for the 2023/24 Maha Season after completing the training of farmers and officers. Due to heavy rain, most of the paddy field cultivations were started in 2023 December and equipment was stored at the ASC centers until the start of the season, due to the unavailability of store facilities for farmer organizations.
- Project tasks should be completed as planned. Reasons for delay in project works should be checked and efforts should be made to avoid it.

3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although the seeds purchased by the Anuradhapura Provincial Project Office for the Yala season are to be distributed to the farmers through the Agriculture Facilitator under a beneficiary contribution of 25 percentage, 1143.5 kg of seeds worth Rs.5 million were in custody of the agriculture facilitators who subjected to sample audit without distribution.	These seeds were distributed to farmers before growth of weevils, for cultivation under Agro wells. The officials were made aware about the storage of seeds related to this.	The distribution of seeds should be completed within the time for cultivation.
(b)	Project had spent Rs.50 million for the procurement of compost fertilizer production equipment to be distributed to farmers in the year 2021. Only one out of 2,847 beneficiaries in Parangiyawadiya ,Konwewa and Galenbidunu Wewa areas who received the compost fertilizer production equipment was producing compost fertilizer by December 2023. Accordingly, the cost of Rs.50 million incurred for compost production equipment was useless.	The basis for selecting these farmers was, cultivation in 2021/22 Maha and being members of producer societies and mainly the production of compost by that time. As farmers limit compost production from time to time and a series of training programs are implemented for farmers to increase production. Also, as per your instructions, it had been decided to recover all materials which are not used, provide them to other needy agencies after preparing documents and not to provide benefits to such farmers. Awareness and gathering information in this regard has already been started.	The compost fertilizer production equipment should be distributed based on the cultivation needs. Follow up on the released goods and seeds and give the necessary instructions and guidance.

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| (c) | The renovation of 146 tanks belonging to the 20 irrigation cascading systems had been started by the North west Provincial Office of the Project. Files containing incomplete information which not complying with the provisions of the procurement guideline regarding the authorization, approval and payment of those files were maintained. | Agree with the observation.

Take action in order to prevent the occurrence of such shortcomings in future. | When spending money, the project should act according to the laws, rules and circulars imposed by the government. |
| (d) | When examining a sample of vouchers for the years 2022 and 2023 related to the Deputy Project Office of the North-West Province of the Climate Smart Irrigated Agriculture Project, Rs.6 million had been paid without certification of vouchers in violation of Financial Regulations No.138 and No.257 and Rs.9 million had been paid without approving the payments in violation of Financial Regulations No.137. | Agree with the observation.

Take action in order to prevent the occurrence of such shortcomings in future. | Disciplinary action should be taken against officials involved in payments made in violation of rules and regulations. |

3.4 Issues Related to Human Resources Management

Audit Issue	Response of the Management	Auditor's Recommendation
Project had spent more than 09 months for conducting the interview for the recruitment of a Management Assistant for the Deputy Project Office of the North West Province and had selected an unqualified candidate who was a relative of the Deputy Project Director.	After checking the matters mentioned in the query, the Deputy Project Director of the North-Western Province as well as his relative Management Assistant, were removed from service.	While recruiting employees and officials, qualifications should be checked and recruited. Disciplinary action should be taken against the officers who are approved to hire unqualified officers.

3.5 System and Controls

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although a Management Information System and an Accounting System should be installed at the beginning of the project and used for the project's tasks, the purchase/design of the systems software was done on 22 September 2022 and 17 October 2022 after 4 years from the starting of project. Rs.13.65 Mn for Management Information System and Rs.3.92 Mn for accounting system had been spent. However, the expected objectives of establishing the accounting system had not been reached.	Management Information System Considering the nature of the scope and the justification, clearance has been given by the World Bank in order to proceed the procurement under Direct Contract method through the STEP reference number LK-MOA-315134-CS-CDS. Accordingly, procurement was conducted under Direct Contract method for modification, Installation, Commissioning and Maintenance of off shelf GIS based Management Information System (MIS).	Investigate and take disciplinary action against the officials responsible for procurement on direct contract basis and involved in delay in installation of Management Information System and Accounting System.