

The audit of financial statements of the Smallholder Agribusiness Partnerships Programme Project for the year ended 31 December 2024 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 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

According to the Loan Agreement, 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 million equivalent to Rs 17,165 million and out of that US\$ 54.4 million equivalent to Rs 8,893 million was agreed to be financed by International Fund for Agriculture Development (IFAD). The balance amount of US\$ 19.3 million equivalent to Rs 3,155 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. However, the date of completion of the activities of the Project had been extended up to 30 June 2025.

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 2024, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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 Sri Lanka Public Sector Accounting Standards 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 Non Compliance with Laws, Rules and Regulations

	Reference to the Non Compliance/Audit Response of the Auditor's Laws Rules and Issue Management Recommendations Regulations
(a)	Financial Regulation The appointment of the BOS process is Board of survey of the Democratic Annual Commodity Survey being carried out and should be done in

Socialist Republic of Sri Lanka F.R.756 and F.R.757 Board should be done on or around 15 December of every year. Annual Commodity Survey Board had not been appointed due date. Project had not conducted an annual commodity survey since 2022. Furthermore, Reports of Board of survey have not been submitted to the audit. would be able to timely manner submit the final according to the report by the end of financial regulation. July 2025.

- (b) Circular No CGIR/2019/03-1(Ins. & Cir) dated 09 July 2019 and Circular No CGIR/2021/02-02 dated 09 April 2021 issued by the Department of Inland Revenue All government entities should send to the Department of Inland Revenue the details regarding to VAT payments to supplier before 15th of next month after quarter. But the Project had not prepared and sent the details to Department of Inland Revenue from the beginning of the project. Action will be taken to submit the details to the IRD according to the circular for 2025. Circular instructions should be followed.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	As at 31 December 2024		Delay/ Audit Issue	Response of the Auditor's Management Recommendations	
	Expected physical performance percentage	Performance achieved percentage			
Overall Physical Performance	100	81.8	The project commenced on 26 June 2017 and was scheduled to be completed by 30 June 2025. It is uncertain whether the project will be able to complete within the remaining six months.	By now IFAD is reviewing the request made by the Sri Lanka Government and most probably SAPP will have the extension to utilize the balance up to 30.06.2026.	The activities of the project should be completed within planned time frame.

3.2 Underutilized Resources

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Though the project has to be completed as at 30 June 2023, the project had been approved to continue till 30 June 2025 by IFAD. When considering the progress of utilization of funds as at 31 December 2024, it was observed that the project utilized only USD 37.8 Mn funds out of USD 54.4 Mn allocation by the IFAD Loan. As a percentage, it was 69 percent. Therefore, it had been observed that the utilization of funds is ineffective when considering the rest of one year time period with balance funds.	Cabinet of Ministers have approved the extension and most probably SAPP will be able to continue service to farmer community of Sri Lanka up to 30.06.2026.	Funds should be utilized efficiently.
(b)	It was observed that the project has utilized only Rs.2,960 Mn from allocation for the reimbursable foreign loan of Rs.5,000Mn for the year under review. Therefore, allocation of Rs.2,039 Mn representing 40 per cent of the total allocation had not been utilized by the project.	More than Rs. 2,000 Mn worth of payments are pending due to delay in equipment purchasing for MILCo, and some other projects on many issues in Procurement procedure such and technical delays, reevaluating, rebuilding.	Funds should be utilized efficiently.

3.3 Matters in Contentious Nature

	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	An agreement was signed with H&D Agro Tech (Pvt) Ltd for constructing Poly tunnels and drip irrigation system for cultivation. It was observed that no one from the government side, i.e. SAPP, has signed this agreement and only the name of SAPP has been used. It was observed that the crediting of government funds to H&D Agro Tech (Pvt) Ltd is problematic and that the agreement is not legal. It was also observed that the institution has not fulfilled its responsibilities properly and that SAPP has not taken any legal action in this regard.	Loans have been issued to Youth for the purpose of constructing polytunnels for their agribusiness as proposed and agreed with the SAPP. They have the option to done it by themselves or get it done by any other party.	The projects under the SAP programme should be monitored properly.

- (b) It was observed that agreement between H&D Agro Tech (Pvt) Ltd and the beneficiaries. It was revealed from the statements of the beneficiaries that although the promoter had agreed to provide technical recommendations and advice in accordance with the agreement, such advice had not been provided and as a result, the crops had been destroyed.
- Agricultural Instructors of the Department of Agriculture should provide technical guidance on management practices.
- Advising beneficiaries should be provided by the programme.
- (c) In the mushroom cultivation project implemented in the Ratnapura district, a grant of Rs.30,000 was provided to one beneficiary through the SAP program for the construction of a stove, making bags and construction of shed. The promoter who is the People's Livelihood Development Foundation had retained Rs.3,031,480 for the expenses of the promoter institution without spending it on the beneficiaries. Furthermore, an estimate had not been prepared for the construction of the stove.
- The procurement procedure couldn't be applied since there are no registered stove makers in the country. Therefore, the Promoter hired skilled masons & other labors, make aware the technical know-how and get it done as per the specifications.
- Beneficiaries should be acknowledged about benefit received through the promoter.
- (d) Although the financial statement of the Programme shows a value of Rs.5.3Mn as a contribution to the People's Livelihood Development Foundation as at 31.12.2022, the promoter company submitted only a value of Rs.3.8 Mn as at June 2023. Accordingly, the government funds that should have been used for the project had been used for private business activities due to the fact that only Rs.3.8 Mn was provided as the institution's contribution, the remaining agreed contribution was not provided and was not properly recorded. The amount of Rs.34.56 Mn has been granted to the promoter who was People's Livelihood Development Foundation by the Programme at several occasions. When making payments to suppliers from that money, cash instead of cheques had been used to make payments ranging from Rs.700,000 to Rs.7Mn by violation of F.R.385.
- Daily paid works cannot be paid by cheques in the evening for their daily ratios. It is not practical.
- FR 385(i) should be applied by the promoter.
- (e) Even through Farm Lives (Pvt) Ltd has been awarded the procurement of Brush-Cutter with Accessories for 4Ps Project, the company has not sufficient capacity to fulfill the requirement of the project at once. As a result of that, although as per agreement goods shall be delivered 8-12 weeks from the date of signing the agreement, the
- Delivery could not be completed within the given time period since to determine the eligible farmers for loan disbursement process
- Action should be taken to act as per the agreements with the bidder.

company has delivered total units in 7 stages. The first delivery has been made after 125 days i.e after 18 weeks from the date of signing agreement. Total of 76 weeks have been taken for supply total units of the procurement. Therefore, the expected objectives may not be accomplished within desired time frame.

was time consuming.

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| (f) | Those 5,894 brush cutters have been purchased and distributed among maize farmers. But details regarding distribution were not maintained by Business Development division and M & E division of the project. | BD and M&E Divisions have been advised to maintain properly the details of farmers who receive grants. | The project should properly maintain the details. |
| (g) | The project has made a procurement of 2000 Grass chopper machines for dairy farmers in 4Ps projects. The procurement has been awarded to Kalana Engineering Technologies and the agreement has been signed on 02 August 2022. According to the agreement, grass chopper machines shall be delivered within 8-12 weeks from the date of signing the agreement. But the Kalana Engineering Technologies has delivered the machines in 68 weeks in 24 batches. The supplier has been taken more than one and half year to supply entire procurement. SAPP has not taken any action for this delay or to recover the loss. Furthermore, SAPP has additionally paid Rs.18,696,380 as VAT due to this delay. | Delay in delivering 2000 Grass chopper machines for dairy farmers in 4Ps projects by Kalana Engineering Technologies leads to additional expense of VAT which was imposed in between the delivery period by the Government. Due to many reasons for delay. | Farmers should be selected as per proposal of the project and should be acted as per the agreements with the bidder. |