

Smallholder Agribusiness Partnerships Programme - 2022

The audit of financial statements of the Smallholder Agribusiness Partnerships Programme (SAPP) 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 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\$ 105.03 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. 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 2022, 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 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 | Response of the Management | Auditor's Recommendations |
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| (a) | The expenses amounting to Rs 527,094 had not been recorded on basis of accrual in the financial statements. | We have considered the payments done in January 2023 which relates to year 2022 by the time of preparation of the FS for 2022 which was started in late January 2023. First payment referred above is an omission but all other consultancy payments have been duly considered. However, the above payments has been paid in February. | Should be followed the Sri Lanka Public Sector Accounting Standards. |

- (b) As per the accounting policy of the Project, non-current assets are accounted in the financial statements at the actual value. However, even though the actual value of a vehicle is Rs.17 million, it had been accounted at the historical value as Rs.42 million in the financial statement. Therefore, total value of the non-current assets had been overestimated by Rs.25 million.
- Purchase price of the above Jeep is Rs. 41,973,311 and the Department of Valuation has valued the same on 28.11.2021 at Rs.17,000,000. As per the 2021 audit report, SAPP has requested the approval of the Secretary – MoA for writing-off the decreased value of Rs.24,973,311.
- Financial Statements should be kept as per Sri Lanka Accounting Standards.
- Action will be taken with the approval and advice from CAO according to FR 108. This particular asset was purchased for NADep Project and transferred to SAPP. On recommendation of IFAD, the historical value has been taken to the books of SAPP as “Government In-kind Contribution” However, by the adjustment of decreasing the asset value will cause the decrease in the value of the in-kind contribution of the Government.

3. Physical Performance

3.1 Contract Administration

| No | Audit Issue | Response of the Management | Auditor’s Recommendation |
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| (a) | According to the proposal submitted by a company in 08 December 2020, providing the different information to the farmers, such as current and forecasted microclimate conditions, select optimum profitable crops etc. has been highlighted in this Management Information System (MIS). however those facilities had not been included in the final agreement. According to the final agreement and the final output of system, this MIS can be used for information collection and report generated purposes only and this not disburse any information to the farmers mobile phones as proposed. | The TOR is prepared based on the functional scope of SAPP mentioned in the Programme Implementation Manual. IFAD requested to cover the Core Modules of SAPP such as Beneficiary Management, Grant Disbursement, Loan Disbursement, and Training Management. But in the Proposal given by the service provider, they had included many other modules including (current and forecasted microclimate conditions, selecting optimum profitable crops etc) But SAPP did not identify all of them as necessary at this stage and included only the core modules in the TOR. | Actions should be taken to implement Management Information System to achieve the project objectives. |
| (b) | Although Management Information System had been proposed to completed within two months it was observed that the contract agreement has extended five times for around one year and two months’ time. | The SAPP is expected to establish a comprehensive MIS to collect validated data directly from the field and then processes and organizes those data for making decisions on different stages of programmed interventions. A contract agreement was signed between Canopus | Project plans should be executed accurately and efficiently. |

Pvt Ltd and SAPP in January 2022 to design, develop and implement a MIS. But the process was delayed due to providing the hosting server supplier, import restrictions prevailed in the country, Change request The design, and development of MIS follows the agile method. Initially, the development was started with core functional modules of SAPP.

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| (c) | <p>Server facility for MIS was purchased after four months from the agreement date. Because of that, it was observed first two months agreement had been extended for another 60 days.</p> <ul style="list-style-type: none"> • The date of Server purchased - 07/04/2022 • The date of Agreement signed - 03/01/2022 | <p>The initial stage of requirement gathering and finalization took a number of days than planned. The service provider had to attend a number of meetings to understand the informational flow of SAPP. The service provider submitted the inception report after the completion of business analysis on which the design and development was based. On completion of this process, the service provider requested a hosting server service. Based on the specifications provided by the service provider SAPP had to procure the server.</p> | <p>The server facility should be taken during the relevant period.</p> |
| (d) | <p>Contractor has agreed to complete and handover MIS at 31 May 2023 and agreed via e-mail to provide maintenance of MIS within first six months free of charge. System maintenance terms and conditions are not included in initial agreement and it was observed that there will be a high risk for pay huge price for the maintenance of the MIS as per request by the service provider in future.</p> | <p>It is un-avoidable to have a web host for any MIS system. Although the assignment of web hosting has been given to Canopus (Pvt) Limited, the service provider has been selected through a competitive process.</p> | <p>Prudency should be exercised when contracting with external parties to obtain goods and services.</p> |
| (e) | <p>With the aim of providing computers to the value chain mobilizers (VCM), the procurement committee decided to purchase 60 tab-computers from a company on 23 September 2022 and purchases were made. When checking the Tab distributing register, it was observed that these computers were not only provided for VCM.</p> | <p>Currently there are 50 VCMs for field duties and IFAD approval for 10 additional VCMs was expected due to the expansion of regional duties. Accordingly, on the request of the head of the Business Development Division, 60 TAB computers have been purchase for the ease of carrying out duties in the field. Therefore, apart from the VCMs, TAB</p> | <p>The project should not be exercised out of the scope.</p> |

computers have also been provided to the SAPP PMU staff who are engaged in field duties based on their duty requirement. Also, on the approval of the Secretary of the Ministry, 05-tab computers have been issued to the Line Ministry.

3.2 Observations made on site visits

| No | Audit Issue | Response of the Management | Auditor's Recommendation |
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| (a) | During the implementation of the Kitul 4P (Public-Private-Producer Partnership) project implemented by the Project, Government contributions had been credited through the farmers' bank accounts to Lanka Eco Product Guarantee Ltd which is implementing the project. | Government contributions had been credited through the farmers' bank accounts to Lanka Eco Product Guarantee Ltd. Promoter has procured the items according to the proposal and the directives given by SAPP management by utilizing his own funds. Once the farmers were distributed the items under review the price of the same has been reimbursed to the promoter through the farmer accounts. This is the one of the procedures practiced for 4Ps with the objective of Get the advantage of bulk purchasing, purchase quality goods with experts' knowledge and Easy to demonstrate and training by the suppliers and extension officers etc. | Plans should be made in such a way that the benefits flow to the farmers and the farmer is informed at the beginning of the program. |
| (b) | Although an amount of Rs.10 million related to 404 farmers was given to Lanka Eco Product Guarantee Limited for setting up ovens for melting Kitul trickle, however for the galvanized smoke pipe, wire mesh and payments to technicians as per the estimate had been spent Rs.4 million (Rs.14,800 each per farmer) and the remaining Rs.6 million had been misused by the institution. | As per the estimate Rs. 25,000 has been provided per farmer for setting up ovens for melting Kitul trickle. Out of that Rs 14,800 is for procuring galvanized smoke pipe, wire mesh and technicians fees and the balance is for sand, bricks, clay and ash. But due to the price increases the total amount is only sufficient for purchasing the above three items. Therefore, farmers are agreed to bare the cost of other items such as sand, bricks, clay and ash etc. Therefore, Promoter has not misused the funds. | Since the price of the commodity has not increased, the expenses incurred by the farmer should be given back to the farmer. |
| (c) | Bids were not called for the purchase of raincoats and head torches that were to be given to the farmers and written evidence that the equipment was handed over to the farmers were not with the Kithul Project. | These two items have been also considered during the evaluation by getting the prices over the phone from all the bidders since these two items have been omitted in the call of bids. However, the promoter has been instructed to avoid such negligence thereafter. | Procurement procedure should be followed. |

- (d) Although 500 farmers were to be given life insurance to cover accidents in the Kitul industry, the producer of the project, Lanka Eco Product Guarantee Limited, did not provide insurance for all the farmers. By 2022 insurance cover has been granted for 142 farmers. By now 440 farmers are covered by the insurance. Agreements should be followed.
- (e) In addition to the administrative expenses allowed in the project proposal amounted of Rs.1.9 million other administrative expenses incurred by the Producer were mentioned as expenses of the Kitul project. The administrative expenses actually incurred in relation to the 4P has been recorded though they are not mentioned in words in the proposal. Money should be spent only on project works as per the agreement.
- (f) The value of the contribution to be given by Lanka Eco Product Guarantee Limited, which is acting as the project producer, is Rs.34.6 million. As at 31 December 2020, the contribution made by this company is only close to Rs.9 million and it was observed that the expenses indicated by Lanka Eco Product Guarantee Limited are baseless false values as any payment vouchers or other relevant documents related to the expenses reported by the project were not in the institution. Promoters were provided training on Book keeping, Accounting and File maintain with all supporting documents and requested to act accordingly. All activities should be supervised by the project management.
- (g) The contribution that was supposed to be given to the project by the farmers involved in the project is Rs. 165,873 per farmer and the total amount is Rs. 83 million. The contribution of the beneficiaries was not accounted in the financial statements of the project. Although the value of the domestic factories for smelting the kitul is Rs.176,324 but estimated as Rs.150,000. As a result, the value of the project was underestimated by Rs.13million. The stranded equation for calculating beneficiary contribution is disclosed in the Notes to the Financial Statements under basis of preparation (2.1) c. Project values should be accurately accounted for.

3.3 Underutilized Resources

| No | Audit Issue | Response of the Management | Auditor's Recommendation |
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| (a) | <p>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 2022, it was observed that the project utilized only USD.21.11million funds under USD.54.4 million allocation by the IFAD Loan. As a percentage, it was be 39 percent. Therefore, it had been observed the utilization of funds is ineffective when considering the rest of two year time period with balance funds.</p> | <p>Current progress of IFAD fund utilization (up to 15th June 2023) is 42 per cent. Covid -19 pandemic and the FOREX issues affected the Programme progress severely. Considering the circumstances IFAD has extended the Programme period by 2 years up to 31st December 2025 with 6 months for financing closure. SAPP management has made strategic plans for utilize the remaining fund within the given period.</p> | <p>The project should achieve its goals within the stipulated time.</p> |
| (b) | <p>Furthermore,total agreed contribution of government of Sri Lanka for the SAPP is USD.19.30 million, the cumulative use of government fund as at the year under review is only USD 5.99 million and it is equivalent to 31 percent of agreed amount. This project is to be ended on 30 June 2025 and use of remaining 69 percent of agreed government fund in next two years is uncertain.</p> | <p>Towards the completion of utilization IFAD Credit Funds, SAPP started to utilize the funds in the Government revolving fund. By now the GOSL progress stands at 38 percent. Another Rs.500mn.(USD1.5mn.) approximately is to be disbursed during this month on CBSL request.</p> | <p>The project should achieve its goals within the stipulated time.</p> |
| (c) | <p>When considering the utilization of IFAD Loan amount, Amount of USD Mn.8.63 had been allocated for consultancies and non-consulting services by financial agreements. But, the usage was USD Mn.1.32 as at 31 December 2022. As a percentage it was equal to 15 percent. It was observed that the amount USD Mn.5 transferred from the allocation of consultancy to the category of Grant as at 17 April 2023. Therefore, it was further observed that estimation of expenses by ministry of finance had not been predicted optimum in the stage of signing agreement with IFAD.</p> | <p>The predictions have been based on the assumption that all the environmental factors would prevail as normal. But from 2020 the country were abnormal due to COVID pandemic and economic crisis. In the meantime, a new proposal was made by the government for providing fertilizer and seeds to Maize farmers as a priority to ensure the food security complying with the current government mandate. IFAD has reviewed the proposal and has agreed to revise the allocation among categories incorporating the said proposal. Thus, the newly proposed Maize project mainly for</p> | <p>The project goals should achieve stipulated time.</p> |

fertilizer and seed distribution to farmers have been included to the SAPP Program. Further IFAD has agreed for an extension of the Project period by 2 years. Based on the new project and the extension of 2 years, the revised fund forecast has been prepared and submitted for IFAD approval. Accordingly, the AWPB 2023 will also be revised.

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| (d) | It was observed that the year under review, the project has utilized only Rs. 789 million from allocation for the reimbursable foreign loan of Rs.1,264 million. Therefore, allocation of Rs.475 million representing 38 percent of the total allocation had not been utilized by the project. | The process of equipment procurement and distribution to farmers has been delayed due to import bans and foreign exchange shortage faced by the suppliers. Therefore, provisions for grants to farmers were remained as savings. | The project goals should be achieved within the stipulated time. |
| (e) | For cinnamon development project targeting 350 beneficiaries Rs.151 million had been estimated. The actual expenditure incurred on 31 December 2022 was Rs.40 million. Therefore, the financial progress of the cinnamon development project was as low as 26 percent. | Actual expenditure (31.12.2022) - Rs.39,935,000. Financial progress was as low as 26 percent Farmers selected by farmer societies were redigested at the CBSL and PFI has issued loans only to 142 farmers. Banks are in the process of recovering loans from the farmers. Grants are issued only to 85 farmers but the project has to be temporarily held on the grounds beyond SAPP control. | The project should implement proper plan for develop the cinnamon beneficiaries. |
| (g) | To provide clean and high quality cinnamon products to the market by trained cinnamon producers using proper equipment, train cinnamon growers on new cultural practices had been highlighted as the main objective of the cinnamon development project. However these objectives had not been achieved until 31 December 2022 even though 04 years passed. | The project has to be temporarily held on the grounds beyond SAPP control. | The project should implement in such a way that the identified goals can be reached. |

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| (h) | Although 350 beneficiaries were targeted, the number of beneficiaries actually identified was 85. Seven cinnamon processing centers were supposed to be built, however there had not been built cinnamon centers. | After Farmer organization has completed construction of cinnamon centers, SAPP will equip the centers. However only one center has been constructed by the farmers. | Affected failure should be identified and implement correctly. |
| (j) | The expected cost of the turmeric project was Rs.37 million, the actual cost incurred was Rs.15.6 million. The objectives of the project were to achieve a high level domestic and foreign market by improving the quality of turmeric production, establishing turmeric seed production units to meet the need for turmeric seed production, increasing the annual total income through turmeric cultivation, and also the goal of turning the farmer organization into a market-oriented social enterprise by increasing the capacity of the farmer organization had not achieved. It was observed, this turmeric cultivation project had failed and the expenditure of Rs.15.6 million had become an idle expenditure. | This project has been implementing successfully but due to government policy decisions affect the project critically. | Foreign market should be identified. |
| (k) | For the Cavendish Banana Plantation Project, 28 beneficiaries had been given loans of Rs.15.6 million by the banks and it was observed that the loan defaulted due to the failure of the banana plantations on the date of the audit. And it was observed that the Cavendish banana cultivation project had failed and the expenditure incurred was an idle expenditure. | 28 beneficiaries had been given loans totaling Rs.15,600,000 by the banks and the loan were defaulted due to the failure of the banana plantations. The expenditure incurred was an idle expenditure. Unless local varieties Cavendish banana needs synthetic fertilizer for their growth and for bearing fruits. Due to the policy decision taken by the Government to ban the chemical fertilizer the project was failed and these farmers couldn't get any harvest. | The project should be planed such a way to achieve the identified goals. |

3.4 Matters in Contentious Nature

| No | Audit Issue | Response of the Management | Auditor's Recommendation |
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| (a) | <p>The organizations of Pelwatte Dairies and Colombage Distributors Lanka had been signed agreements with Smallholder Agribusiness Partnership Program (SAPP) for Dairy Development and Seed Potato respectively for three year time period. But, these companies were not engaged in any contribution at the date of 31 December 2022. And also, the agreed time period of those organizations will be ended at the month of July 2023. It was observed that the progress of the project is stage of weak.</p> | <ul style="list-style-type: none"> • Palwatte Dairy Company Though the programme activities have been started with SAPP, the company had not completed the process of recruiting a manager for the project. Therefore, the project had not been functioning well. SAPP has notified the promoter that SAPP would close the project if they fail to complete the task. Later the Promoter agreed to expedite the project. In year 2023, they have recruited a manager and now the extension activities and field organization are on. The company is bearing the salary cost of the Manager and also cover the cost of field day organizing and field extension work. This contribution by the promoter will be reported as the “Company Contribution” in 2023 Financial Statements. • Seed Potato project On receipt of the No Objection Clearance (NOC) from IFAD, 4P ground level activities have been started at the time of COVID-19 and the agreement has been signed on 22nd July 2021. Seed Potato (Mini tuber) production is highly technical and technical support and equipment were provided by the Provincial Agriculture Department of the Central Province. • Colombage Lanka company This Company was involved to provide materials to the farmers (For e.g., grow bags with sterilized media) and SAPP pays directly to the farmers. Promoter contribution will be taken for the year 2023. | <p>Projects should be implemented and achieve the desired results.</p> |
| (b) | <p>The Cinnamon Project - Rs.2,434,594 was paid to the private organization selected as a service provider without monitoring the work performed. And also what are the services provided by the organization was unable to identified in the audit. Accordingly, it</p> | <p>Service provider has been appointed for carrying out the task of Institutional Strengthening and paid only Rs.1,999,593.75 according to the agreement after evaluating the work done reports submitted by the Service provider. An amount of Rs 39,935,000 has been issued to</p> | <p>Funds should be used sparingly and targets reached in a planned manner.</p> |

was observed that the amount of Rs.39,935,000 incurred for the projects was an idle expenditure.

the farmers as Credits (Rs. 35,300,000 for 142 Farmers) and Grants (Rs. 4,635,000 for 85 Farmers) for on farm development activities. After monitoring the activities done by the farmers, Grants are issued to them on their individual claim vouchers with the certification of VCM, Promoter and SAPP M&E team. Farmers have been utilizing the credit funds for on farm development activities and by now Banks are in the process of recovering the loans.

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| (c) | <p>Ampara Gonagala Agricultural Materials Producers and Marketers Cooperative Society (Promoter) Limited in Ampara district had implemented the turmeric cultivation project targeting 110 beneficiaries. The estimated cost of the project was Rs.37,331,020. According to an agreement made between the government and the cooperative society (promoters), goods worth Rs.11,990,000 should be awarded to the farmers, but goods worth Rs.8,844,402 were awarded. Due to that of Rs.3,145,598 worth of grant had been lost to the farmers.</p> | <p>This is a bulk purchase saving to the government.</p> | <p>The Procurement plan should be implemented.</p> |
| (d) | <p>According to an agreement between the government and the cooperative society, Rs.2,500,000 for 05 yellow cleaning machines for farmer societies, Rs.300,000 for stores repair works and Rs.3,000,000 for 01 solar dryer, a total of Rs.5,800,000 was estimated. But Rs.3,095,569 was spent for 01 yellow cleaning machines and for the construction of a toilet system and a warehouse not mentioned in the estimate and agreement. It was also observed that the storage and toilet system were not used by the farmers.</p> | <p>At that time only one machine was the requirement of the society.</p> <p>When repairing the Stores (warehouse) it had to be improved with hygienic conditions. Toilets should also be maintained in the same condition since this is a food processing center. Toilets are under lock & key for the safe custody and to maintain the hygienic conditions.</p> | <p>Funds should not be spent contrary to the objectives of the project.</p> |
| (e) | <p>The project proposal given by the promoter of the sugarcane project named Gal Oya Plantation Company was asked to prepare and resubmit it in</p> | <p>NSC approval and the IFAD NOC have been obtained with the recommendation of BPEC after evaluating the project proposal by the independent Business Proposal</p> | <p>Proper agreements and approvals should be obtained for the projects.</p> |

a manner suitable for the project on 27 April 2018, and the plantation company had not submitted the correctly prepared project proposal. Without a properly prepared project proposal, the sugarcane cultivation project had been executed by entering into an agreement with the promoter (Gal Oya Plantation Company).

Evaluation Committee (BPEC). Projects are being implemented with an agreement after having those approvals.

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| (f) | According to the project proposal, Rs.312,000,000 was estimated to provide Inter cultivator, Sprayer, Brush Cutter for 4,000 farmers. But instead of the above mentioned 03 machines, Rs.138,000,000 had been spent to buy Multi-Function Machine and it was observed that it was a variation of Rs.174,000,000 from the estimated cost. It was also observed that the above Multi-Function Machine cannot perform the tasks that can be done by the Sprayer machine. | Estimated cost for Inter cultivator, Sprayer, Brush Cutter for 4,000 farmers Rs.312,000,000 as per proposal Spent to buy Multi-Function Machine instead of the above mentioned 03 machines, Rs.138,000,000; Variation from the estimated cost Rs.174,000,000. Multi-Function Machine cannot perform the tasks of the Sprayer machine. Intracultivar – harrowing, ploughing and earthing up Brush Cutter- cleaning the sugarcane bush and harvesting Sprayer – spraying chemicals for weed control However Multi-Function Machine can perform the following three tasks including mechanical weed control instead of spraying chemicals. | While planning the procurement activities, machinery and equipment should be identified according to the requirement. |
| (g) | Although the agreement states that the farmers who are the beneficiaries of this project should be members of a farmer's union, it was observed that the beneficiaries are not members of a farmer's union but an informal group. | All the farmers are members of one of the farmer societies mentioned in Schedule 3 of the 4P agreement. | Beneficiaries should be identified at the planning stage. |
| (h) | It was observed that although Rs.138,931,500 had been issued to the Galoya Plantation Company for the purchase of 4,027 multi-purpose machines, the plantation company had purchased only 3,528 machines. | All the 4000 farmers are received multi-purpose machines and payments have been made to farmer accounts. | The relevant information should be documented correctly while giving the machines to the beneficiaries. |

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| (i) | Although Galoya Plantation Company (the promoter) should submit reports on the progress of the project, such reports had not been submitted and the project had not maintained the information about the 4,000 beneficiaries of the sugarcane cultivation project. | All the promoters are requested to submit progress reports in time periodically. | Records should be kept up to date. |
| (j) | SAPP had been entered in to a five years 4P project with Chello dairy products (pvt) Ltd for Dairy development on 30 October 2018. As per this agreement total agreed private sector contribution is Rs.11,807,578. Nevertheless, as at 31 December 2022, the company contribution had been recorded as Rs.67,384,143 and accounted by the SAAP. Thereby, agreed value of Promoter Company for this project had been exceeded by Rs.55,576,565. Accordingly, SAPP had been reported the said amount without making proper evaluation. | Already Promoter has been requested to submit the evaluation with a proper justification to support for the recorded amount. | The project should guide the promoters. |

3.5 System and Controls

| No | Audit Issue | Response of the Management | Auditor's Recommendation |
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| (a) | As per the sample audit on the Backyard Poultry Farming of Integrated Agro Business Company Ltd, Dairy Development of CEETEE and Cowpea projects, the discrepancy was identified between the actual number of beneficiaries and the reported number of beneficiaries under the Note no.07 in the financial statement as who have been received the grant. Therefore, the progress report on grant issued by the SAPP had not been provided the reliable information about the number of beneficiaries. | Beneficiary farmers engaged with SAPP are in difference stages in the field. Beneficiaries start the project activities with the loan funds or with their own funds. Once the activities under grants such as constructions or equipment distribution are completed, the claim vouchers are submitted for payment. Thus, the number of farmers who are physically engaged always differs from number of farmers who receive grants. | Beneficiaries should be correctly identified and reported correctly. |
| (b) | Sum value of Rs.17,485,000 related to Dasini Dehydration Center (Moringa Cultivation Project), | Though the three projects were suspended, the beneficiaries of these three projects who were directly | Funds should be spent efficiently and properly. |

Uthsahaya Cinnamon Growers (Cinnamon Cultivation Project) and Bandarawela Milk Producers (Dairy Development Project) projects has suspended by the Smallholder Agribusiness Partnership Program (SAPP) and because of that the expenses incurred by the project, that has been observed as ineffective expenses. facilitated by SAPP with loans and grants are still engaged with other SAPP Promoters. The individual farmers are continuing the business.