

Smallholder Agribusiness Partnership Programme - 2018

The audit of financial statements of the Smallholder Agribusiness Partnership Programme for the period of 18 months ended 31 December 2018 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 Article IX of Financing Agreement No. 2000001843 dated 26 June 2017 and the Loan Agreement No. 2000001984 dated 21 November 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development. My comment and observation which consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreements, the Presidential Secretariat is the Executing and Implementing Agency of the Programme. The objective of the Programme is to sustainably increase the income of 57,500 smallholder households involved in commercially-oriented production and marketing system. As per the Loan Agreements, the estimated total cost of the Project amounted to US\$ 105.04 million equivalent to Rs.17,172.42 million and out of that US\$ 54.40 million equivalent to Rs. 8,893.58 million was agreed to be financed by International Fund for Agricultural Development. The balance amount of Rs. 3,164.86 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.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Programme as at 31 December 2018 and financial performance 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 skepticism 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. Physical Performance

2.1 Physical progress of the activities of the Project

The activities of the Project are implemented under 03 components of access to commercial partnership, rural finance and programme management and policy dialog.

Component	Audit Issue	Impact	Reasons for delays	Recommendation
(a) Access to commercial partnership and rural finance	It was targeted to provide sub-loans to 45,000 beneficiaries, including smallholder out growers during 18 months period from 01 July 2017 to 31 December 2018. According to the progress reports, 13,887 beneficiaries had been identified as at 31 December 2018. Out of that, only 2,119 beneficiaries had been registered at the Central Bank of Sri Lanka and granted sub loans amounting to Rs. 320.13 million to 1,715 beneficiaries as at that date.	The targets stipulated in the Action Plans would not be achieved.	Action had been taken to enter into 09 Public-Private -Producer Partnership Agreements with 13,887 farmers to go forward within next 02 years.	Need to take action to popularize the activities of the Project as enable to achieve the targets.
(b) Programme management and policy dialog	No trainings to assist the smallholder tea cultivators had been conducted as at 31 December 2018 by the Promoter Company.	The targets stipulated in the Action Plans would not be achieved.	There were some of the lapses of the Project Partners, Promoter Company and Promoter Bank. Accordingly, a person for the post of Value Chain Mobilizer had been appointed to inspect the field development programme.	The close supervision is needed on the activities implemented by the Promoter Company and Banks.

2.2 Observations made on site visits

The following observations are made.

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The outgrowers in Galle district use traditional methods on preparation and maintenance of tea nurseries, due to lack of necessary trainings, infrastructure facilities, technical knowledge and other assistance to the smallholder tea cultivators.	Use of traditional methods by the farmers will affect to the achieve the objectives of the Project.	There are some lapses from the project partners, Promoter Company and promoter Bank. Accordingly, a Value Chain Mobilizer had been appointed to inspect the field development programme.	The close supervision is needed on the activities implemented by the Promoter Company/ Banks.
(b)	The tea cultivators in Galle district had not been directed to form Outgrowers' societies/ groups to improve their Smallholder Agribusiness.	Lack of coordination with relevant parties.	The issues identified have been already communicated to the Company and to the Bank to take necessary actions to rectify the lapses.	-Do-
(c)	The Promoter Company in Galle district had not contributed to share the cost of tea plants of replanting and infilling of tea cultivations made by 537 smallholder outgrowers.	Possibility to discourage outgrowers.	The issues identified have been already communicated to the Company and to the Bank to take necessary actions to rectify the lapses.	-Do-

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| <p>(d) It was observed that the branch of the Promoter Bank located in Kurunegala area had been assigned to provide extension services promote the outgrowers in Galle district. It was observed that the pass book had not been provided by the respective Promoter Bank to the outgrowers to provide details on the transactions made through the Bank Accounts.</p> | <p>-Do-</p> | <p>Action had been taken to inform the Bank to issue a Loan Awarding Letter and bank statement for the beneficiaries.</p> | <p>-Do-</p> |
| <p>(e) According to the progress reports, 153 beneficiaries had applied sub loans valued at Rs. 15.30 million during the period under review to implement floriculture projects in Galle district. Out of that sub loans valued at Rs.6.60 million had been released by the Promoter Banks to 66 beneficiaries as at 31 December 2018.</p> | <p>Possibility underutilization allocation made.</p> | <p>to The proposed plant shed cannot be constructed at this rate, due to cost of materials to be used.</p> | <p>Need to be reviewed the difficulties faced by the beneficiaries and Promoter Companies and Participatory Banks.</p> |

- (f) It was revealed in site inspection that the beneficiaries in Ratnapura district engaged in floriculture business had utilized the proceeds of grants to construct shade houses for other purposes.
- Possibility to misuse of funds allocated.
- The Participating Bank and the company will be informed to closely monitor the fund utilization and recoveries.
- A mechanism is required to be established for monitoring purposes.