

Smallholder Plantation Entrepreneurship Development Programme - 2019

The audit of financial statements of the Smallholder Plantation Entrepreneurship Development Programme (“Programme”) - Rural Financing and credit component for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of comprehensive income and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies 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 provisions in the programme loan agreement No. 712-LK dated 08 May 2007 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund For Agricultural Development. My comments and observations which I consider should be report to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the programme

According to the Loan Agreement of the Smallholder Plantation Entrepreneurship Development Programme, the Central Bank of Sri Lanka is the Authorized Executing Agency for the rural financing and credit component of the programme. The objectives of the programme are to strengthen the beneficiaries’ institutional capacity and negotiations skills; improve the land tenure status of smallholder tea and rubber growers; increase producers’ profits through improved post-harvest handling, storage, processing and marketing of their products; develop and expand rural finance and credit services; and ensure that women improve their living conditions and reduce their time poverty. The activities of the Project are implemented under 12 expenditure categories namely Civil Works, Vehicles, Equipment and Goods, Training and Workshops, Technical Assistance and Studies, Service provider Contracts, Agriculture Inputs, Subsidies and Matching Grants, Credit, Salaries and Allowances, Operations and Maintenance and Unallocated.

As per the Loan Agreement, the estimated total cost of the programme was SDR15.25 million (US\$ 23 Million) equivalent to Rs.2,574 million and out of that SDR 1.75 Million (US\$ 2.7 Million) equivalent to Rs.295 million approximately allocated to Rural financing and credit component of the programme. The allocation for rural financing and credit component of the programme had been revised as SDR2.6 million (US\$ 3.8 million) equivalent to Rs.494 million in September 2014. The Subsidiary Loan Agreement between Government of Sri Lanka and the Monetary Board of the Central Bank of Sri Lanka had been signed on 14 July 2009 and it was amended on 29 May 2015. The programme commenced its activities in 2010 and completed on December 2016.

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 2019, financial performance and its cash flows for the year then ended in accordance with Sri Lanka 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 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 Programme'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 the programme's internal control.
- 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. Financial and Physical performance

2.1 Utilization of Funds

Certain significant statistics relating to the financing and the utilization of funds as at 31 December 2019 are shown below.

Source	Amount agreed for		Fund Utilized			
	Rural	Financing as	During the year		As at 31 December	
	per the Loan Agreement	per the Loan Agreement	under review		2019	
	SDR	Rs	SDR	Rs	SDR	Rs
	Million	Million	Million	Million	Million	Million
IFAD	2.6	494	-	-	2.48	488

2.2 Physical progress of the activities and loan recoveries of the Program

The programme had granted 4,060 refinance loans valued at Rs. 487.66 millions as at 31 December 2016 under the rural financing and credit component of the above mentioned programme through 7 participating finance institutions to the beneficiaries in Monaragala, Kegalla, Kandy and Nuwara-eliya districts and no refinance loan had been granted after year 2016 as the activities of the program had been closed on 31 December 2016. However, the process of recoveries was continued up to 31 December 2019. Capital recoveries of refinance loans aggregating Rs. 445 million in 2018 and Rs. 30 million in 2019 had been transferred to the revolving fund account established at the Central Bank of Sri Lanka by amalgamating three IFAD funded projects and programme including this Programme. Further, a sum of Rs. 3.216 million granted as refinance loans to be recovered during the year 2020 and 2021.