Smallholder Plantations Entrepreneurship Development Programme (SPEnDP) – 2014

The audit of financial statements of the Smallholder Plantations Entrepreneurship Development Programme for the year ended 31 December 2014 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 02(a) of Article V of the 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.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement of the Smallholder Plantations Entrepreneurship Development Programme, the Ministry of Plantation Industries is the Implementing Agency 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.

According to the Loan Agreement, the estimated total cost of the Programme was US$ 29.22 million equivalent to Rs 3,827.82 million and out of that, US$ 22.5 million equivalent to Rs 2,954.05 million was agreed to be financed by the International Fund for Agricultural Development. Further, the expected contribution of the Participating Financial Institutions and other Beneficiaries was US$ 1.9 million equivalent to Rs.248.9 million and US$ 1 million equivalent to Rs.132.31 million respectively. The Programme commenced its activities on 06 November 2007 and was scheduled to be completed within a period of 7 years. However, the duration of the Programme had been extended up to 31 December 2016 by the Cabinet of Ministers at its meeting held on 05 September 2014.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor`s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Programme's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

(a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Programme management and the reliability of books, records, etc. relating to the operations of the Programme.

(b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.

(c) Whether adequate accounting record were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Programme in financial and physical terms, the assets and liabilities arising from the operations of the Programme, the identification of the purchases made out of the Loan, etc.

(d) Whether withdrawals under the Loan had been made in accordance with the specification laid down in the Loan Agreement.

(e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Programme.

(f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme;

(g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.

(h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(i) Whether financial covenants laid down in the Loan Agreement had been complied with.

2. Financial Statements

2.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me I am of opinion that,

(a) the Programme had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.

(b) the funds provided had been utilized for the purposes for which they were provided.

(c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.

(d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and

(e) the financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Performance

3.1 Utilization of Funds

Certain significant statics relating to the financing, budgetary provisions for the year under review and utilization of funds during the year under review and up to 1 December 2014 are shown below.

Source	Amount agreed to the finance according to the Loan Agreement		Allocation made under the Budget Estimate for the year under review	Funds Utilization			
				During the year under review		As at 31 December 2014	
	US $ million	Rs. million	Rs. million	US $ million	Rs. million	US $ million	Rs. million
IFAD	22.55	2,954.05	561.60	3.14	425.77	16.33	1,924.54
GOSL	3.76	492.56	38.40	-	29.67	-	149.17
Participating Financial Institutions	1.90	248.90	26.75	-	23.09	-	86.97
Beneficiary Contribution	1.01	132.31	31.08	-	55.06	-	132.81
Total	29.22	3,827.82	657.83	3.14	533.59	16.33	2,293.49

According to the above information, the proceeds of the Loan amounting to US$ 16.33 million representing 72 per cent of total allocation had been utilized as at 31 December 2014 even after lapse of 07 years of the period of the Project. The possibility of utilization of the balance amount of US$ 6.22 within the period of 02 years of the Project is remained doubtful in audit.

3.2 Physical Progress

The following observations are made.

(a) A sum of Rs.1.5 million had been allocated to the Export Agriculture Department to distribute internal plant crop to rehabilitate low productivity crops in Kandy, Nuwaraeliya and Kegalle Districts under Mid Country Sub Programme only a sum of Rs.936,658 representing 62.4 per cent had been utilized. Further, it was revealed that physical target of above Programme 36 and 55 per cent had only been achieved at the end of year under review.

(b) Under the Mid Country Sub Program, the Programme had provided a Yoghurt Cup Sealer Machine valued at Rs. 490,000 to a beneficiary for production of goat milk yoghurt in June 2013. It was observed that the beneficiary had not commenced the production even up to June 2015.

(c) The Monaragala Sub-Program had planned to construct 20 drinking water wells and a sum of Rs. 4,100,000 allocated for this purpose for the year under review. Although advances aggregating Rs.144,000 had been granted to construct 6 drinking water wells, it was revealed in field audit inspection that the places selected for wells are not suitable for the intended purposes. It was observed that no single well had been completed up to April 2015.

(d) Even though the Mid Country Sub-Program of the Programme had prepared an estimate of Rs.5.5 million to conduct 178 training programmes during the year under review, only 68 training programmes representing 38 per cent had been conducted at the end of the year. Accordingly, a sum of Rs.3.36 or 61 per cent of the estimated amount had only been utilized.

(e) The Programme had allocated a sum of Rs.3,352,831 during the year under review to establish 1,082 boundary pillars in Monaragala and Bibile forest rangers under the Monaragala Sub-Program. However, only 587 pillars were established upto March 2014 at a cost of Rs. 1,400,000.

3.3 <u>Contract Administration</u>

It was revealed at an audit inspection that 300 meters of Unwatuna Road in Buttala area had only been rehabilitated under a contract awarded to rehabilitate 400 metres of that Road. However, a sum of Rs.1,122,085 had been spent, out of the total allocation of Rs.1,519,241 made to rehabilitate 400 metres of the Road.

3.4 <u>Matters in Contentious Nature</u>

The following observations are made.

(a) The transport expenses amounting to Rs.1,374,024 and advertising expenses amounting to Rs.520,800 spent by the Programme was not directly related to achieve and objectives of the Programme.

(b) Mid County Sub-Program had hired a vehicle since 2010 on rent basis from a outside party. The quotations were called annually for hiring vehicles and selected the same vehicle supplier for last five years without considering the prices quoted by other vehicle suppliers. The Programme had spent vehicle hiring charges amounting to Rs.2,684,205 from 2010 to 2014.