

Smallholder Plantation Entrepreneurship Development Programme (Rural Financing and Credit Component) - 2014

The audit of financial statements of the Smallholder Plantation Entrepreneurship Development Programme (Rural Financing and Credit Component) 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 5.02 of Article V of the Loan Agreement No.712-LK dated 08 May 2007 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Fund for Agriculture Development (IFAD). This report is issued on the financial statements for the year ended 31 December 2014 which prepared and presented by the Central Bank of Sri Lanka on operations of the Rural Financing and Credit Component of the Programme. A separate report had been issued on 20 May 2015 on other operations of the Smallholder Plantation Entrepreneurship Development Programme.

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. As per the Loan Agreement, the estimated total cost of the Programme amounted to SDR 15.25 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 allocated for Rural Financing and Credit Component of the Programme. The reallocation of SDR 2.6 million (US\$ 3.8 million) equivalent to Rs. 494 million approximately had been approved by International Fund for Agriculture Development on 19 September 2014 for the Component. The Programme commenced its activities in 2010 and scheduled to be completed on 31 December 2016.

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 judgement, 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 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 audit opinion. The examination also included such test 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 Programme had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Programme.
- (c) Whether adequate accounting records 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.
- (d) Whether the funds supplied under the Loan had been utilized for the purposes of the Programme.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (g) Whether the 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 financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, utilization of funds during the under review and as at 31 December 2014 are shown below.

Source	Amount agreed for Rural financing in the Loan Agreement		<u>Funds utilized</u>			
			during the year under review		as at 31 December 2014	
	SDR million	Rs. million	SDR million	Rs. million	SDR million	Rs. million
IFAD	2.6	494	0.48	90.26	1.75	340

3.2 Physical Progress

The Programme had granted 2,975 refinance loans valued at Rs. 340 million as at 31 December 2014 through 07 Participating Financial Institutions to the beneficiaries in Monaragala, Kegalle, Kandy and Nuwara-eliya Districts. Further, 1,717 refinance loans valued at Rs. 218 million representing 64 per cent of the total value of refinance loans had been granted to the beneficiaries in Monaragala District whilst only 68 refinance loans valued at Rs. 5.08 million representing 01 per cent of the total value of refinance loans was granted to the beneficiaries in Nuwara-eliya District. In addition, 2,171 refinance loans had been granted by 03 Participating Financial Institutions in public sector and only 804 loans had been granted by 04 Participating Financial Institutions in private sector. According to the explanation of the Deputy Governor of the Central Bank of Sri Lanka, the performance of the Participating Financial Institutions is determined on the basis of the strength of the network of bank branches in each district and their capacities and interest thereon.

3.3 Revolving Fund

The capital portion of the refinance loans amounting to Rs. 152 million as at 31 December 2014 had been deposited in a Special Account maintained at Domestic Operations Department of Central Bank of Sri Lanka in order to continue lending activities after termination of the original Programme.