

## **Warehouse Receipts Financing Project - 2015**

---

The audit of financial statements of the Warehouse Receipts Financing Project for the year ended 31 December 2015 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 II B 3 of Schedule 2 of the Grant Agreement No.TF 6138 (TF 012186) dated 17 July 2012 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

---

According to the Grant Agreement of Warehouse Receipts Financing Project, then Ministry of Finance and Planning, presently the Ministry of Finance is the Executing Agency and the Department of Development Finance is the Implementation Agency of the Project. The objective of the Project is to provide access to farmers to quality storage facilities for agricultural products and to facilitate the use of such products as collateral to access financial services by developing an electronic and negotiable warehouse receipts financing program. The estimated cost of the Project was US\$ 6.5 million equivalent of Rs.852.8 million and entire cost of the Project was agreed to be financed by International Development Association. The activities of the Project commenced on 17 July 2012 and scheduled to be completed by 31 July 2015. However, the financial statements for the year ended 31 December 2015 had been presented for audit.

### **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 Project'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 Project'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 Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (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 Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Grant, etc.
- (d) Whether the opening and closing balances and withdrawals from and replenishments to the Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date.
- (e) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (f) Whether the funds, materials and equipments supplied under the Grant had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.

- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Grant 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 Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the opening and closing balances and withdrawals from and replenishments to the Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (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 Grant Agreement,
- (d) the funds provided had been utilized for the purposes for which they were provided,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Grant Agreement had been complied with.

### 3. Financial and Physical Performance

---

#### 3.1 Utilization of Funds

---

Certain significant statistics relating to the financing, budgetary provisions for the year under review, utilization of funds during the year under review and the cumulative expenditure as at 31 December 2015 are shown below.

Source	Amount agreed to be financed as per Grant Agreement		Provision made in the Budget Estimate for year 2015	during the year under review	Funds utilized as at 31 December 2015	
	US\$ million	Rs. million			Rs. million	US\$ million
IDA	6.5	852.8	442	132	4.7	612
	<u>6.5</u>	<u>852.8</u>	<u>442</u>	<u>132</u>	<u>4.7</u>	<u>612</u>

The following observations are made.

- (a) According to the above information, out of the total allocation of US\$ 6.5 million equivalent to Rs. 852.8 million, only US\$ 4.7 million equivalent to Rs. 612 million had been utilized at the end of the period of the Project.
- (b) Out of the allocation of US\$ 600,000 equivalent to Rs 78.72 million made in the Grant Agreement to assist farmers to construct big onion warehouses, only US\$ 370,320 equivalent to Rs. 48.58 million had only been utilized.
- (c) According to the information received, the unspent proceeds grant of US\$ 1.68 million had been refunded at the end of the period of the Project. Further, a sum of Rs. 73.76 million had only been reimbursed, out of the total cost of the contract amounting Rs. 184 million awarded for the construction of the large warehouse in Mannar. Therefore, cost of the remaining works of the warehouse would be incurred by the Government of Sri Lanka.

### **3.2 Physical Progress**

---

The following observations are made.

- (a) According to the information received, the Project had taken action to construct 03 large warehouses in Huruluwewa, Buttala and Mannar to implement the Warehouse Receipts System and out of those, the construction works of the warehouse at Huruluwewa and Buttala were completed and handed over in March and September 2015 respectively. Storing of farmers' produce in the warehouses at Huruluwewa and Buttala which having capacity of 5,000 metric tons each had been commenced on 31 March 2015 and 31 January 2016. However, only 314 metric tons and 230 metric tons of grains had been stored in the warehouses at Huruluwewa and Buttala respectively up to 31 May 2016. The contract for construction of the warehouse in Mannar had been awarded on 11 May 2015 and 40 per cent of works had only been completed as at 31 December 2015.
- (b) Further, the Project had provided financial and technical supports to the farmers engaged in cultivation of big onions to construct their own warehouses. Therefore, 600 warehouses including 500 warehouses in Matale District were expected to be constructed during the period of the Project. According to the information received, 352 farmers including 143 farmers in Matale District had completed the construction works of their big onion warehouses as at 31 December 2015.
- (c) According to the Project documents, it was proposed to provide facilities to the farmers to use of their products as collaterals to obtain loans from Commercial Banks by developing an electronic mechanism for loan negotiation purposes. However, the Project Monitoring Unit could be able to provide facilities to obtain loan facilities through an electronic mechanism only for 70 and 16 farmers who obtained the storage facilities in warehouses at Huruluwewa and Buttala respectively. No adequate action had been taken to implement electronic receipt mechanism for the farmers in Mannar District, due to delays in completion of construction works of the warehouse in Mannar.
- (d) The large warehouse in Buttala is located in a corner of Monaragala district and the farmers in remote areas of the district such as Siyambalanduwa, Madulla, Badalkumbura, Madagama and Bibile are not benefited for storing facilities of their produce, due to high cost of transportation from paddy field to the warehouse. Further, the farmers in Ampara District are not benefited for storing of their produce eventhough the production of 616,996 metric tons of paddy had been recorded in 02 seasons of the year under review.