

## **Poverty Alleviation Micro Finance Project II (PAMP II) and Poverty Alleviation Micro Finance Project II -Revolving Fund (PAMP II-RF) - 2018**

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The audit of financial statements of the Poverty Alleviation Micro Finance Project II and Poverty Alleviation Micro Finance Project II-Revolving Fund (PAMP II-RF) (“The Project”) for the year 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 4(3) of Article III of the Loan agreement No. SL-P94 dated 29 July 2008 entered into between the Democratic Socialist Republic of Sri Lanka and then Japan Bank for International Cooperation (JBIC) presently known as the Japan International Co-operation Agency (JICA). This report is issued on the financial statements for the year ended 31 December 2018 which prepared and presented by the Central Bank of Sri Lanka on operations of the Poverty Alleviation Micro Finance Project II (PAMP II) and Poverty Alleviation Micro Finance Project II -Revolving Fund (PAMP II-RF).

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

According to the Loan Agreement of the Poverty Alleviation Micro Finance Project II and Poverty Alleviation Micro Finance Project II-Revolving Fund, the Central Bank of Sri Lanka is the Executing and implementing Agency for the Project. The objectives of the programme are to improve income level of the poor and enhance an inclusive formal financial service for them by providing credit for income generating activities, improving management and training capacity of participating Financial Institutions (PFIs) and partner Agencies (PAs) and increasing income generating opportunities and skill development of beneficiaries, thereby contributing to alleviate poverty, mitigating regional inequality and supporting peace building.

As per the Loan Agreement, the estimated total cost of the programme was Japan Yen 2,759 million Equivalent to Rs 3,076 million and out of that Japan Yen 2,575 million equivalents to Rs 2,704 million was agreed to be financed by Japan International Cooperation Agency. The Project had commenced its activities on January 2009 and scheduled to be completed by December 2013. Hence, it has been decided to implement the Poverty Alleviation Micro Finance Project II-Revolving Fund (PAMP II-RF) Credit scheme for a period of five years commencing from 10 May 2013 to 14 July 2018.

### **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 2018, 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.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **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. Financial and Physical Performance

Certain significant statistics relating to the financing and the utilization of funds as at 31 December 2018 are shown below.

Source	Amount agreed to be financing as per Loan Agreement		Allocation made in the Budget Estimates for the year under review for expenses	Funds utilized			
	During the year under review	as at 31 December 2018		During the year under review	as at 31 December 2018	During the year under review	as at 31 December 2018
	JPY million	Rs. million	Rs. million	JYP million	Rs. million	JYP million	Rs. million
Lending Agency	2,575	2,704	-	-	-	2,562	3,470
GOSL	-	372	32.45	-	15.10	-	308
Total	2,575	3,076	32.45	-	15.10	2,562	3,778

## 3. Identified loss

Audit issue	Impact (Rs)	Response of the Management	Auditor's recommendations
It was observed that an impairment loss amount of Rs. 2.83 million had to be recognized in to the Statement of Comprehensive income for the year ending 31 December 2018 and a total provision for Rs. 40.53 million had been made in the financial statements for the year under review on the Reverse Repurchase investment matured on January 2019 due to breach of contractual agreement made with the Central Bank of Sri Lanka by the primary dealer engaged in the respective Reverse Repurchase Investment.	40,537,679	No response	Need to monitor the adequacy of securities for Reverse Repurchase Investments.