

Smallholder Tea and Rubber Revitalization Project - 2018

The audit of financial statements of the Smallholder Tea and Rubber Revitalization 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 Article XI of the Financing Agreement No. 2000001447 dated 26 April 2016 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 reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, the Ministry of Plantation Industries is the Executing Agency and Implementing Agency of the Project. The objective of the Project is to develop more productive, profitable and resilient economic activities of Tea and Rubber Smallholders in the Project Area. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 65.40 million equivalent to Rs. 8,502.08 million and out of that US\$ 25.77 million equivalent to Rs. 3,349.30 million was agreed to be financed by International Fund for Agriculture Development. The balance amount of Rs. 5,152.78 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 15 August 2016 and scheduled to be completed by 23 April 2021.

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 International Public Sector 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 International Public Sector 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 Project'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 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. Physical Performance

2.1 Physical progress on activities carried out by the Project

The activities of the Project consisted with 03 components to provide financial and technical supports to the Tea Smallholders' Development Authority, Rubber Development Department and provide financial facilities through credit schemes implemented by 04 Participatory Credit Institutions. Therefore, the subsidy schemes are implemented by the Project to support of tea smallholders in Galle, Matara, Ratnapura, Badulla, Kandy and Nuwara-Eliya districts for replanting purposes and rubber smallholders in Ampara and Monaragala districts for new planting purposes. The following observations are made relating to the progress of the activities carried out by the Project.

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) It was planned to issue permits to the smallholder farmers for tea replanting of 3,875 hectares in the above mentioned 05 districts up to 31 December 2018. However, permits had been issued only for 2,382 hectares of land and upfront payments aggregating Rs. 348 million had been made to the tea smallholders thereon. According to the information received, only 738 hectares of tea lands prepared for replanting purposes as at 31 December 2018.	The objectives of the Project will not be achieved.	Due to unavoidable circumstance the Project was not able to achieve the replanting targets during the years 2016, 2017 and 2018. In order to accelerate the replanting Programme, the Project had empowered tea inspectors with GPS technology, instead of manual land measurements practices.	Need to be maintained proper co-ordination between the Line Ministry and the Tea Smallholders Development Authority.
(b) It was observed that 109 other tea smallholders who obtained permits and upfront payments of Rs. 3.58 million for the purpose of tea replanting of 23.85 hectares in Kandy district had not continued their cultivation.	The expected results were not achieved.	Accepted. A crash program had been implemented by the District Project Management Units to accelerate the subsidy payments.	Action should be taken to monitor the Project activities, in order to achieve the objectives of the Project.
(c) According to the information received, 331 tea smallholders in Kandy district could not be obtained the second and third installments of subsidies for replanting of tea in 47.23 hectares even after completing land preparation activities, due to delays in receiving the recommendations of the Tea Inspectors.	Possible delays in payment of subsidies.	A crash program is being implemented to release the installments of the subsidy.	The officers should be deployed adequately for the effective implementation of Project activities.
(d) It was observed at the physical inspection, the lands of 17.81 hectares in the Warapitiya area in the Maha Oya Divisional Secretariat Division prepared for rubber replanting purposes under the Project had been acquired to	Anticipated objective could not be achieved.	Accepted. The precautionary action will be taken to minimize the loss.	Needed to be considered the environmental matters before releasing the upfront payments. Further, it is necessary to maintain proper

construct a reservoir. Therefore, the upfront payments aggregating Rs. 1.25 million made to 22 smallholders had become fruitless. Further, it was observed that rubber cultivation of 41.29 hectares made by 65 smallholders in Maha Oya, and Uhana Divisional Secretariat Divisions had been destroyed by the wild elephants and upfront payments aggregating Rs. 2.89 million made in 2016 and 2017 was become fruitless. In addition, rubber cultivation of 10.54 hectares made by 12 other smallholders at Damana and Lahugala had also destroyed, due to severe drought prevailed in the areas.

coordination with the other government agencies to minimize the losses.

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| (e) | A baseline survey and monitoring and evaluation system had been completed by the Project on 31 October 2018 at a cost of Rs. 6.5 million to collect information on social and economical background of the beneficiaries living in the areas of the Project. However, the Evaluation and Monitoring Officers had not been recruited by the Project for continuous monitoring purpose of the activities of the Project, based on the survey conducted. | The survey information could not be utilized effectively for the benefits of the stakeholders. | Attempts are taken to select suitable qualified persons for evaluation and monitoring purposes. | When consider the cost of the base line survey, the survey information should be utilized effectively by getting service from specialist person. |
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2.2 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
According to the Budget Estimate for 2018, the allocation amounting to Rs. 500 million under local component and the allocation amounting Rs. 900 million under the foreign component had been made to implement the activities of	According to the action plan, the targets on utilization funds could not be achieved.	Not commented	Prompt action need to be taken to adhere with the Action Plan in order to utilize the allocations made under the Project and make contribution the

the Project. However, according to the Action Plan of the Project for 2018, the activities at a cost of Rs. 321 million under the local component whilst other activities at a cost of Rs. 825.91 million under the foreign component only had been planned to implement by the Project during the year under review. Out of that only a sum of Rs. 163.24 million under the local component and a sum of Rs. 713.59 million under the foreign component had been utilized at the end of the year under review.

enhance the production capacities of the smallholder plantations in the country.

2.3 Delays in Capital Works

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The development works of the rubber plant nursery at Ampara carried out at a cost of Rs. 18 million as at 31 December 2018 had been abandoned, due to lack of prior approval from the relevant authorities such as Central Environment Authority, Department of Forest Conservation and Department of Archaeology. As a result, the targets to cultivate 250,000 rubber plants annually by the Project in above mentioned 02 districts had remained doubtful.	Planned activities will not be implemented.	The development works had been done by the Department of Agrarian Service and action will be taken to restart the works to complete it before October 2019.	Prompt action need to be taken to increase the production of the rubber plants to meet the demands.

2.4 Matters in Contentious Nature

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) The Project had procured 10 motor cars on 04 September 2018 at a cost of Rs. 85 million had remained idle for 04 months period up to 31 December 2018, due to	Wastage of public funds.	This situation was arisen, due to unavoidable circumstances occurred beyond the control of the Project to recruit the drivers in order to continue the activities of the Project, Therefore, action had been	Prompt action needed to rectify the situation and minimize the operational cost of the Project.

delays in recruiting drivers. The Project had taken action to hire motor vans at a cost of Rs. 2.64 million during the above mentioned period of 04 months.

taken to hire motor vehicles.

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| (b) Action had not been taken to carry out investigations as required by the Financial Regulation 104 on a vehicle belonging to the Project met with an accident in March 2018 to ascertain the loss and fix the responsibility thereon. | Inability to fix the responsibility for recover for loss and recover the damages. | A preliminary inquiry was held by the committee appointed thereon and base on the report other committee will be appointed for the final inquiry. | Action should be taken to early according to the Financial Regulations. |
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