

The audit of winding up financial statements of the Smallholder Tea and Rubber Revitalization Project for the period ended 31 March 2024 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 9.03(a) of the Article IX of the Loan Agreement No2000001447 dated 26 April 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development (IFAD). 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 Loan Agreement, the Ministry of Plantation Industries is the Executing and implementing Agency of the Project. The objectives of the Project are to develop more productive, profitable and resilient economic activities of tea and rubber smallholders in the Project area. As per the Loan Agreement, the estimated total cost of the Project was US\$ 65.4 million equivalent to Rs.8,502 million and out of that US\$ 25.77 million equivalent to Rs.3,349.30 million was agreed to be financed by the International Fund for Agricultural Development (IFAD). The balance amount Rs.5,153 million is expected to be financed by the Banks, Beneficiaries and Private Sector in Government of Sri Lanka. The Project had commenced its activities on 15 August 2016 and scheduled to be completed by 23 April 2021. However, the date of completion the activities of the project had been extended up to 30 September 2023.

## **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the section 2.1 of my report, the accompanying winding up financial statements give a true and fair view of the financial position of the Project as at 31 March 2024 statement of project expenditure and its cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **1.4 Basis for Qualified Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the winding up financial statements appeared in 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 Winding up Financial Statements**

Management is responsible for the preparation of winding up financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of winding up 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 Winding up Financial Statements**

My objective is to obtain reasonable assurance about whether the winding up 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 winding up financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the winding up 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 winding up financial statements, including the disclosures, and whether the winding up 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. Comments on Winding up Financial Statements**

### **2.1 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
As per the paragraph 43(a) Sri Lanka Public Sector Accounting Standard 05, assets and liabilities for each statement of Financial Position should be translated at the closing foreign exchange rate of date of the statements of Financial Position. However, the parity adjustment made in previous year amounting to Rs. 3,257.08 million relating to the foreign loan of the project as at 31 March 2024 had been transferred back to the foreign loan balance. As a result, foreign loan balance as at 31 March 2024 had been understated by that amount.	According to the State Accounts Guideline 3/2024, adjustment for the parity variance in the project financial statements was not required.	Comply with the SLPSAS 05.

### **2.2 Non Compliance with Laws, Rules and Regulations**

<b>Reference to the Laws Rules and Regulations</b>	<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Financial Regulation 753(2)	According to F.R. 753(2) original copy of the good received note had not been with the project for Rs. 117,246,984 goods handed over to 09 institutions by the project.	It has been handed over quite a considerable number of items of which has been used by the respective DPMUs on scheduled day.	Comply with F.R. 753(2).

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 March 2024	Expected physical performance Units	Performance achieved Units	Audit Issue	Response of the Management	Auditor's Recommendations
(a) Tea Smallholders Development	Market driven production support for tea smallholders	4500 hectares of land	4131 hectares of land		The project had planned to rehabilitate and replant 5,500 hectares of tea lands in six selected districts from 2016 to 2022 and extended up to 30 September 2023. However, due to the failure of the project to commence operations in 2016 as planned, the target for rehabilitating and replant tea lands was revised to 4,500 hectares. However 369 hectares had not been planted with tea as at 31 December 2023.	Steering committee has taken a decision to reduce the project target. However, the Project was unable to achieve the revised target.	Activities of the plan should be carried out within the scheduled.
(b) Rubber Smallholders Development	Market driven production & processing support for rubber smallholders	3000 hectares of land	2770 hectares of land		The project had planned plant 3,000 hectares of rubber lands in two selected districts from 2016 to 2022. However, 230 hectares had not been planted with rubber as at 31 December 2023.	Agreed, the project was unable to achieve the target.	Activities of the plan should be carried out within the stipulated project period.

### 3.2 Underutilized Resources

Audit Issue	Response of the Management	Auditor's Recommendations
(a) Although Rs.3,972,290 and Rs.6,801,923 paid on assistance for rubber cultivation of Ampara and Monaragala Districts 122 hectares and 227 hectares of small rubber estates it had been failed to do so.	The Rubber Development Department is in the process of rehabilitating the rubber lands / cultivations by giving plants and technical support.	Activities of the plan should be carried out within the stipulated project period.
(b) Under the subsidies scheme, 805 beneficiaries who obtained permits to replant tea in a total area of 242 hectares in the six districts during the period of 2017 to 2023 which had not started any work after obtaining upfront payments of Rs. 35,931,707 due to various reasons such as delay in land measuring and delay in grass planting.	Beneficiaries do not complete their site works as per TRI recommendation, THSDA field officer are not in position to make recommendation on such tea lands.  This issue has been already identified and necessary arrangements have been made to recover the payments.	Project activities should be closely monitored and complete timely.