

Warehouse Receipts Financing Project - 2014

The audit of financial statements of the Warehouse Receipts Financing Project 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 II B 3 of Schedule 2 of the Credit 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 Credit Agreement of Warehouse Receipts Financing Project, the Department of Development Finance is the Executing Agency and then Ministry of Finance and Planning, presently the Ministry of Finance is the Implementation Agency of the Project. The objective of the Project is to provide local farmers with access to quality storage facilities for agricultural products and facilitate the use of such products as collateral to access financial services by developing an electronic and negotiable warehouse receipt 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 Project activities were commenced on 17 July 2012 and expected to be completed by 31 May 2015.

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 judgment, 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 Lending 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 Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Credit Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Credit 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 the opinion that,

- (a) the Project 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 Project 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 provide,
- (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 Credit Agreement,
- (d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Credit 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 2014 are shown below.

Source	Amount agreed to be financed as per Credit Agreement		Provision made in the Budget Estimate for year 2014	during the year under review	Funds Utilized	
	US\$ million	Rs. millions			US\$ million	Rs. million
IDA	6.5	852.8	400.0	216.4	1.8	237.9
GOSL	-	-	3.0	-	-	-
	6.5	852.8	403.0	216.4	1.8	237.9

According to the above information, out of the total allocation of US\$ 6.5 million equivalent to Rs 852.8 million, only US\$ 1.8 million equivalent to Rs 237.9 million had been utilized at the end of 1 ½ years of the operation of the Project as at 31 December 2014. Therefore, the possibility of using of balance of allocation of US\$ 4.7 million in the rest of the period of 05 month is doubtful in audit.

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 to implement the Warehouse Receipt System and out of those, the construction works of the warehouse at Huruluwewa was completed in May 2015 and physical progress of warehouses at Buttala and Mannar was remained at 55 per cent and 20 per cent only as at 31 May 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. According to the information received, 370 farmers had entered into agreements with the Project to construct big onion warehouses and out of that only 287 farmers had completed the construction works of their warehouses as at 31 May 2015.
- (c) According to the Project documents, it was proposed to develop a mechanism to allow warehouse operators to provide electronic receipt to the Commercial Banks, as collateral for loans requested by the farmers and thereby, allowing to fulfill immediate financial needs of the farmers. However, the Project Monitoring Unit had not taken action to establish the proposed mechanism even as at 31 December 2014.

5.3 Matters in Contentious nature

The following observations are made .

- (a) According to the information received, the location of the construction of a warehouse at Ampara had been subsequently shifted to Buttala and as a result of this decision, the mobilization advance amounting to Rs.29.3 million made on 10 November 2014 had remained in the hand of the contractor up to 26 January 2015.
- (b) A sum of Rs 660,574 had paid to the Technical Officers attached to the Divisional Secretariats for the purpose of providing technical instructions, inspection and preparation of document for the financial assistances granted to the farmers for construction of big onion warehouses.