

Smallholder Plantation Entrepreneurship Development Programme (Rural Financing and Credit Component) - 2017

The audit of financial statements of the Smallholder Plantation Entrepreneurship Development Programme (Rural Financing and Credit Component) for the year ended 31 December 2017 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 5.02 of Article V of the Loan Agreement No.712-LK dated 08 May 2007 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agriculture Development. This report is issued on the financial statements as at 31 December 2017 which prepared and presented by the Central Bank of Sri Lanka on operations of the Rural Financing and Credit Component of the Programme.

1.2 Implementation, Objectives, Funding and Duration of the Programme

According to the Loan Agreement of the Smallholder Plantation Entrepreneurship Development Programme, the Central Bank of Sri Lanka is the Authorized Executing Agency for the Rural Financing and Credit Component of the Programme. The objectives of the Programme are to strengthen the beneficiaries' institutional capacity and negotiations skills, improve the land tenure status of smallholder tea and rubber growers, increase producers' profits through improved post-harvest handling, storage, processing and marketing of their products, develop and expand rural finance and credit services, and ensure that women improve their living conditions. As per the Loan Agreement, the estimated total cost of the Programme amounted to SDR 15.25 million (USD 23 million) equivalent to Rs.2,574 million and out of that SDR 1.75 million (USD 2.7 million) equivalent to Rs.295 million approximately had been allocated to Rural Financing and Credit Component of the Programme. The allocation for Rural Financing and Credit Component of the Programme had been revised as SDR 2.6 million (USD 3.8 million) equivalents to Rs.494 million in September 2014. The Programme commenced its activities in 2010 and completed on 31 December 2016. However, the financial statements of the Programme for the year ended 31 December 2017 had been prepared and 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 Programme'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 Programme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. The examination also included such test 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 Programme.
- (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 Programme.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Programme from the funds of the Government of Sri Lanka and the Lending Agency.
- (d) Whether the funds supplied under the Loan had been utilized for the purposes of the Programme.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Programme.
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (g) Whether the financial covenants laid down in the Loan 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 Programme had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Programme as at 31 December 2017 in accordance

with Sri Lanka Accounting Standards, and

- (b) the funds provided had been utilised for the purposes for which they were provided.

2.2 Comments on the Financial Statements

2.2.1 Accounts Receivable

According to the financial statements of the Programme, a balance of Rs.3.30 million had been continuously shown as a receivable from the Saubagya Loan Scheme implemented by the Central Bank of Sri Lanka since 2012. However, the respective balance had not been shown in the financial statements of the said Loan Scheme, as a payable balance.

3. Financial and Physical Performance

3.1 Utilization of Fund

According to the information received, a sum of US\$ 2.48 million equivalent to Rs.488 million had been utilized at the end of the period of the Project, out of the allocation of US\$ 2.60 million equivalent to Rs 494 million made to implement the activities of the Rural Financing and Credit Component of the Programme.

3.2 Physical Progress

The Programme had granted 4,060 refinance loans valued at Rs. 487.66 million at the end of the previous year through 07 Participating Financial Institutions to the beneficiaries in Monaragala, Kegalle, Kandy and Nuwara-eliya districts and no refinance loans had been granted in 2017. Further, the capital recoveries of refinance loans aggregating Rs. 421 million had remained as at 31 December 2017 in a Special Account maintained at the Domestic Operations Department of the Central Bank of Sri Lanka and the Monetary Board of the Central Bank of Sri Lanka had decided on 06 July 2017 to transfer the respective balance to a dedicated Revolving Account which established by the Central Bank of Sri Lanka by amalgamating the recoveries made on refinance loans granted by other 03 Donor Funded Projects.