

Smallholder Tea and Rubber Revitalization Project - 2023

The audit of financial statements of the Smallholder Tea and Rubber Revitalization Project for the year ended 31 December 2023 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 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 2023, and its cash flows for the year then ended in accordance with Sri Lanka 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 Sri Lanka 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 scepticism 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 of the activities of the Project

Component	Activity	As at 31 December 2023		Audit Issue	Response of the Management	Auditor's Recommendations
		Expected physical performance Units	Performance achieved Units			
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 September 2023. However, due to the failure of the project to commence operations in 2016 as planned, the target for rehabilitating and replanting tea lands was revised to 4,500 hectares.	It is true and, the total achievement of the tea replanting at the end of the project was 92%.	Activities of the plan should be carried out as the planned scheduled.

2.2 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Under the subsidy schemes, 805 beneficiaries 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 an upfront payments of Rs.35,931,707, on various reasons	Based on the series of actions taken to recover the upfront defaulters Balance in hand Rs.35.93Mn (US\$ 108,884) Directed to Mediation Boards Rs.10.02 Mn (US\$ 30,383) Cases for legal actions Rs.25.91Mn (US\$ 78,501) As per the approval granted by IFAD, it has been deducted US\$ 108,884 from the total amount justified in Q 3, 2023 and close the ineligible expenditure from the records of IFAD. Therefore, it has been adjusted Rs 35.93 Mn (US\$ 108,884) form the justification in the 3 rd quarter of 2023, and justify the balance to the loan fund.	Decided activities should be done and utilize funds with monitoring by the Project Management Unit.
(b)	Although Rs.2,710,807 or 90 percent of allocated fund had been used in the year for "Exposure visits national stocktaking and policy development conferences for small holder Tea Production and Winding up Programmes" ,only 25 percent had been completed of the physical target in the year	Based on the instructions given by the Ministry of Agriculture and Plantation Industries, stock taking activities of the project were conducted by RRI and the Tea Research Institute of Sri Lanka. After the relevant recommendations and the required approvals given by the Secretary of the Line Ministry, payments were made. But the physical progress of the activities was not recorded till the required no of hard copies received by the project.	Target should be achieved within the time period and activities should be performed by monitoring the Project Management Unit.
(c)	Although Rs.843,362 or 110 percent of allocated fund had been used to "Consultancy for Zero -Soil Rehabilitation (SQI)",only 67 percent had been completed of the physical target in the year.	Though the project planned to plant tea on the SQI method in 2023, due to un availability of the required transportation facilities through the Tea Research Institute to the Consultant for Zero -Soil Rehabilitation (SQI) to go to the fields on time to get the planned work done planned physical target could not been met.	Activities of the plan should be carried out as scheduled with the project period.
(d)	Although Rs. 450,000 had been allocated for 03 joint progress review meetings it had spent Rs. 2,641,055 i.e. 587 percent more than the allocated amount.	Due to completion of the rubber cultivation in 2022, limited allocation of Rs 450,000 were made available in the AWPB 2023, for the progress review of the rubber component of Monaragala and Ampara districts. An independent review of the successful	Allocation and payment should be done with fair manner.

implementation of the rubber component had to be done by an independent team of inspection, due to the unforeseen practical issues elevated at the completion of the rubber component in Monaragala and Ampara districts. Thus, recording of those expenses against the said limited budgetary allocation of joint progress review, considerable increase against the budget allocation was reported.

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| (e) | Financial and Physical progress of 18 main activities of the project is within the 06 percent to 70 percent and 02 percent to 57 percent respectively. | Due to the exclusive focus on completion of tea replanting by the project completion as of 30.09.2023, entire capacity of the Field Animators of the project and TIs of the TSHDA were extended for tea replanting than the full completion of some of the activities initially planned in the AWPB 2023. On the other way an exclusive opportunity of granting the approval to utilize the US\$ loan surplus by IFAD as a Matching Grant to GOSL of Sri Lanka to pay the subsidies of the project beneficiaries, the project assimilated such advantage as maximum as possible to divert its beneficiaries to develop the tea smallholdings sector. | Financial and Physical target should be achieved within the time period. |
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2.3 Unutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the action plan in 2023 Four main activities of Conduct Bio diversity assessment, Rubber survey on planted extent, Develop Blogs and Vlogs groups for professional dialog and Organize national level, district level workshops, cafe or coffee talks to share the knowledge those had not been done up to end of the project.	Because of the decision taken by the Line Ministry, consultant discontinued the project since 20.06.2023, and the disrupter of the activity caused it.	Plan should be prepared in proper manner and Main activities of the Action plan should be done as a decision.