

Smallholder Tea and Rubber Revitalization Project - 2020

The audit of financial statements of the Smallholder Tea and Rubber Revitalization Project for the year ended 31 December 2020 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 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 Loan Agreement, the Ministry of Plantation 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.8,502.08 million and out of that US\$ 25.77 million equivalent to Rs.3,349.28 million was agreed to be finance by the International Fund for Agricultural Development. The balance amount of Rs.5,152.80 million is expected to be financed by the Government of Sri Lanka, Banks, Beneficiaries and Private Sector. 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 June 2022.

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 2020, financial performance 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 2020		Audit Issue	Responses of the Management	Reasons for delays	Auditor's Recommendations
		Expected physical performance	Performance achieved				
		Units	Units				
Tea Smallholders Development	Market driven production support for tea smallholders	650 ha.	205 ha.	The project had planned to rehabilitate and replant 5,500 hectares of tea lands in 06 selected districts from 2016 to 2022. However, the project had not been commenced its operations in 2016 as planned. Therefore, only 2,102 hectares had been rehabilitated and replanted as at 31 December 2020. Accordingly, the project had decided to revise the target of rehabilitating and replanting tea lands to 4,500 hectares. Therefore, at least 650 hectares of tea lands per annum should have to be rehabilitated and 75 per cent of the total tea lands had to be rehabilitated and replanted within 5 years of the commencement of the project, but only 46 per cent had been achieved.	As the main season of tea replanting is the Yala season, the country was locked in with the onset of the COVID 19 epidemic from March 16, 2020.	Due to Covid -19 epidemic, difficulties in obtaining technical extension services.	Activities of the plan should be carried out as scheduled.

Rubber smallholders' Development	Market driven production and processing support for rubber.	3,000 ha.	2,623 ha.	The new rubber cultivation target in the two districts of Moneragala and Ampara was 3,000 hectares within the project period and from 2016 to 2019 2,094 hectares had been cultivated. The remaining 906 hectares had been planned to cultivate during the year under review. However, the expected target of rubber plantations could not be achieved, as only 529 hectares had been cultivated.	Due to the heavy rains at the end of 2019, the viability of rubber flowers was reduced.	Due to the heavy rains and grafted rubber plants could not be obtained from rubber nurseries in 2020.	All the activities should be implemented timely.
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2.2 Unutilized/Underutilized Resources

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Provisions of Rs. 18.7 million had been made for the purchasing of pH meters, methium sodium bottles and shade nets as per the annual procurement plan. Out of that amount Rs.15.3 million or 82 percent provided to purchase of pH meters for tea inspectors and shade nets for nurseries had not been utilized.	Only 18 percent of the money allocated for those activities has been utilized due to the difficulty of making timely purchases due to the Covid epidemic.	Activities of the plan should be carried out as scheduled with in the project period without delay.
(b)	The Project had given Rs.41.9 million to develop the infrastructure facilities of the Padiyathalawa Rubber Nursery in the Ampara District during the period from 2018 to 2019. Out of that a sum of Rs. 40.8 million utilized and the balance amount of Rs. 1.1 million had been remained idle in the bank account.	The total premium payments made for the development work as at 31 December 2019 is Rs.41,938,445. .	The expected activity should be accelerated and monitored by the PMU.

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| (c) | Although 5 years have passed since the commencement of the Project, allocation of Rs.4.6 million had been made for the year 2020 to established a Web Based Management Information System. However, it had not been established. As a result, the Project was unable to coordinate existing district office and to maintain the required management information system. | The project is developing a web processing management information system and has so far reported 80 percent physical progress. | A Management Information System should be established. |
| (d) | Although a sum of Rs.4.6 million had been allocated as consultancy to conduct a survey on project outcome in the year 2020, it had not been implemented. | Although Procurement work of Project Outcome Surveys commenced in early 2020, but after its completion the Post Graduate Institute of Agriculture, University of Peradeniya was selected for the survey and due to the second wave of the covid-19 epidemic there were difficulties in reaching the beneficiaries. | Project outcome surveys should be implemented to evaluate the project results. |
| (e) | Although Rs.1.8 million had been allocated for the environmental and social protection consulting activities during the year under review, only Rs.900,000 or 50 per cent had been utilized, due to unavailability of a consultant. | The Procurement Committee has approved the appointment of a Consultant on 31st December 2019 and the relevant Consultant has provided short term advisory service from 1 February to 31 July 2020. | A consultant should be appointed. |