

Smallholder Tea and Rubber Revitalization Project - 2022

The audit of financial statements of the Smallholder Tea and Rubber Revitalization Project for the year ended 31 December 2022 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 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 million was agreed to be financed by the International Fund for Agricultural Development. 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 2022 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 2022		Audit Issue	Response 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	4,500 ha	2,465 ha	The project had planned to rehabilitate and replant 5,500 hectares of tea lands in six selected districts	Strategies were implemented at district level to achieve the target, Balance of 2,035 Ha of tea to be	Backlog in subsidy payments for tea replanting.	Activities of the plan should be carried out as scheduled with in the project period without delay and provision should

from 2016 to 30 replanted before
 June 2022. closing of the
 However, due to project in
 the failure of the 30.09.2023.
 project to
 commence
 operations in
 2016 as planned,
 the target for
 rehabilitating
 and replant tea
 lands was
 revised to 4,500
 hectares.
 However 2,035
 hectares had not
 been planted tea.

be used in an
 economic manner.

2.2 Underutilized Resources

No	Audit Issue 6	Response of the Management	Auditor's Recommendation
(a)	<p>122 hectares of 213 small rubber estate owner's rubber land in Ampara District and 227 hectares of 359 small rubber estate owner's rubber land in Monaragala District had been failed as at 31 December 2022. However cultivation assistance of Rs.4 million and Rs.7 million had been provided to failed smallholder rubber estate owners in Ampara and Monaragala Districts respectively.</p>	<p>Lands taken over by the Government for the Mundeniaru reservoir and damages to plants due to wild animal threats, forest fire and severe drought conditions etc. were the reasons for unsuccessful cultivation.</p>	<p>Activities of the plan should be carried out as scheduled within the project period without delay and provision should be used in an economic manner.</p>
(b)	<p>Although 2523 beneficiaries who obtained permits to replant tea in a total area of 578 hectares in the six districts during the period of 2017 to 2022 under the subsidies scheme, which had not started any work after obtaining upfront payments of Rs.87 million on various reasons such as delay in land measuring and delay in grass planting.</p>	<p>In order to encourage tea replanting project granted up-front for partial funding for uprooting old tea and balance for land preparation, as a Capital Grant amounting to Rs.150,000 per ha. Payments were proceeded considering the actual area intended for tea replanting with the recommendation of tea inspectors of the TSHDA. Strategies implemented for recover and convert to compose in under new strategies. They are supposed to</p>	<p>Decided activities should be done with monitoring by the PMU.</p>

complete tea replanting before September 2023.

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| (c) | <p>The project has allocated Rs.45 million for the development of its infrastructure and have a capacity to supply 250,000 rubber plants per year from the nursery located at Padiyathalawa in Ampara District which belongs to the Rubber Development Department and Rs.7 million had been spent for the development of nursery by the project in the year under review. However the project was able to obtain only 40,365 rubber plants from its nursery and the remaining quantity had purchased from other nurseries and extra amount of 22 million had been spend for transport.</p> | <p>As at 31.05.2023, the project has financed Rs.53.69 Mn for the development activities During 2022, total number of budded rubber plants supplied by the Padiyathalawa nursery was 40,365. Out of the balance requirement of 325,039 only 312,417 plants were supplied by the other nurseries of the RDD.</p> <p>During 2022, obvious cost of transportation of Rs 22,097,293 incurred to deliver the procured budded rubber plants to the beneficiary lands in Ampara and Monaragala districts by the project.</p> | <p>All relevant activities should be done in due time to minimize the unnecessary expenditure.</p> |
| (d) | <p>Although Rs.2 million and 94 percent of the allocation had been spent for extension services of the tea growers only 38 percent of physical progress achieved as at the year under review.</p> | <p>Due to continuous price hike of fuel prices and high price levels of other expenses such as transportation, accommodation, meals, refreshments etc. beyond the projects control, were caused to conduct limited number of programmes within the allocation made available through the year in 2022.</p> | <p>Activities of the plan should be carried out as scheduled within the project period with an economic manner</p> |
| (e) | <p>Although Rs.67 million and 93 percent of allocated fund had been used for establishment of 50 small scale rubber processing units, only 33 units had been completed on 14 June 2023.</p> | <p>According to the project PDR, only 48 larger level processing units were proposed. Although the target is 48 Rubber Processing Centers based on the field level assessment conducted collaboratively between the RRI and project, it has been decided to establish 50 units, in the processing capacity of 50 kg to 100 kg per month.</p> | <p>Target should be achieved in an economic manner</p> |

2.3 Unutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the annual action plan prepared by the project, Rs.500,000 has been allocated for the national level awareness program under rural financing in the year 2022, however the work has not been done.	Having followed the cumbersome procedure for approval of the Phase ii of the loan scheme. Commencement of the Phase ii was started on 01.05.2023 allocations for National Level awareness programmes in 2022, could not have been utilized as planned.	Provisions should be utilized in due time and economic manner.
(b)	Although Rs.8 million allocated and Rs.2 million spent for establishment of model organic villages related to rubber cultivation which was stopped due to the practical difficulties relating to fuel problem.	During the year under review due to the fuel crisis prevailed throughout the country and the unbearable price hike of fuel prices and uncontrollable high inflation over the goods and services and scarcity of utensil needs due to import restrictions, further implementation of the activity was suspended.	Provisions and expenditue should be done for a better outcome.