

AUDITED PROJECT FINANCIAL STATEMENTS

Project N° : 1731

Loan/Grant: 2000001447

Period covered: 1st January 2017 – 31st December 2017

Smallholder Tea and Rubber Revitalization Project

Prepared by: Auditor General's Department

Received on 10th July, 2018

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No.

PLA/C/STaRRP/4/17/07

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

06 July 2018

The Secretary
Ministry of Plantation Industries

Report of the Auditor General on the Financial Statements of the Smallholder Tea and Rubber Revitalization Project for the year ended 31 December 2017

The English version of the above mentioned report is sent herewith.

H.M Gamini Wijesinghe
Auditor General

- Copies to :-
01. Secretary, Ministry of Finance and Mass Media
 - ✓ 02. Project Director, Smallholder Tea and Rubber Revitalization Project



copy to FM
for necessary action p. 7.
12/7/2018



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06 July 2018

The Secretary
Ministry of Plantation Industries

Report of the Auditor General on the Financial Statements of the Smallholder Tea and Rubber Revitalization Project for the year ended 31 December 2017

The audit of financial statements of the Smallholder Tea and Rubber Revitalization Project 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 Article XI of the Financing Agreement No. 2000001447 dated 26 April 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the International Fund for Agricultural Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement of the Project, the Ministry of Plantation Industries is the Executing and Implementing Agency of the Project. The objective of the Project is to develop more productive, profitable and resilient economic activities of Tea and Rubber Smallholders in the Project Area. As per the Financing Agreement, the estimated total cost of the Project amounted to US\$ 65.40 million equivalent to Rs. 8,502 million and out of that US\$ 25.76 million equivalent to Rs. 3,349.30 million was agreed to be provided by the International Fund for Agricultural Development. The Project commenced its activities on 15 August 2016 and scheduled to be completed on 23 April 2021.

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 Generally Accepted Accounting Principles 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 and the International Fund for Agriculture Development Guidelines for Project Audits. 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 Credit, etc.



- (d) Whether the withdrawals under the Credit had been made in accordance with the specifications laid down in the Financing Agreement.
- (e) Whether the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (f) Whether the funds, materials and equipment supplied under the Credit had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (i) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Financing 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 Project 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 Project as at 31 December 2017 in accordance with Generally Accepted Accounting Principles and the IFAD Guidelines,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances and withdrawals from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Financing Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Financing Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Non-Compliance with Laws, Rules and Regulations

According to the paragraph 1.3 of the Circular No. 1/2016 of 24 March 2016 of the Department of Management Services, a Project should be treated as a foreign funded project if the foreign funding component of the Project should not be less than 60 per cent of the total Project cost. Eventhough the contribution of the International Fund for Agricultural Development for this Project is limited to only up to 39 per cent of the total cost of US\$ 65.40 million and treated as a foreign funded project.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IFAD	25.76	3,349.30	400.00	1.787	273.84	1.911	292.86
Participating Banks	3.25	422.60	-	-	-	-	-
Beneficiaries Contributions	3.61	469.20	-	0.009	1.44	0.009	1.44
Private Parties	0.11	1.90	-	-	-	-	-
GOSL	32.76	4,259.00	900.00	0.185	28.41	0.236	36.27
Total	<u>65.40</u>	<u>8,502.00</u>	<u>1,300.00</u>	<u>1.981</u>	<u>303.69</u>	<u>2.156</u>	<u>330.57</u>

Eventhough the Government had allocated a sum of Rs. 400 million in the Budget Estimate for the year under review under foreign component, the Project had prepared an annual action plan for the year under review to carryout activities of the Project at a cost of Rs. 911 million. Thus indicated the action plan for the year under review had not been prepared reliably.

3.2 Physical Progress

The Project consists of 03 components to provide financial and technical supports to the Tea Smallholders' Development Authority, Rubber Development Department and provide financial facilities through credit schemes implemented by 04 Participatory Credit Institutions. Therefore, the subsidy schemes are implemented by the Project to the support of tea small holders in Galle, Matara, Ratnapura, Badulla, Kandy and Nuwara-Eliya districts for replanting purposes and rubber smallholders in Ampara and Monaragala districts for new planting purposes. The following observations are made relating to the progress of the above mentioned 03 components.

- (a) The total sum of Rs. 329 million had been spent to implement the activities of the Project under all 03 components as at 31 December 2017 and out of that only a sum of Rs. 203 million representing 62 per cent of the total expenditure had been incurred to implement the activities of the Project whilst the balance amount of Rs.126 million representing 38 per cent of the total expenditure had been spent for project monitoring purposes including staff remuneration of Rs.59.30 million representing 18 per cent of the total cost.
- (b) According to the annual work plan, a sum of Rs. 671 million had been allocated during the year under review to carry out the activities for market driven production support and market diversification for tea smallholders under the component of Tea Smallholders' Development. However, there was no financial and physical progress thereon had been reported even as at 31 December 2017.
- (c) The subsidies aggregating Rs. 135.28 million had been granted to the smallholders of tea plantations during the year under review for new planting purposes. However, no record on lands cultivated under grants of Rs. 35.65 million had been made available for audit.
- (d) According to the information made available, it was expected to distribute 300,000 rubber plants during the year under review to the smallholders in the Ampara and Monaragala districts for new planting purposes. However, only 93,000 plants had been distributed to the smallholders in those districts.
- (e) The Project had paid a sum of Rs. 1.75 million to the Department of Forest on 23 November 2017 for demarcation and surveying of 280 hectare of forest land in Ampara district in order release those lands to farmers for rubber new planting purpose. However, the activities thereon had not been commenced even up to 31 May 2018.



- (f) According to the Project Work Plan, a sum of Rs. 139.89 million had been allocated for granting credit facilities for tea and rubber smallholders under the component of Rural Financing. However, no action had been taken up to 31 December 2017 to implement the credit schemes under the respective component.

H.M. Gamini Wijesinghe
Auditor General

MINISTRY OF PLANTATION INDUSTRIES - STARR PROJECT
INCOME/ EXPENDITURE STATEMENT FOR THE PERIOD ENDING 31.12.2017

		LKR	
		2017	2016
FINANCED BY,		(LKR)	
GOVERNMENT OF SRI LANKAS (GOSL)		28,409,824	26,873,692
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)		273,840,215	
BENEFICIARY CONTRIBUTION		1,448,232	
TOTAL INCOME		303,698,271	26,873,692
DIRECT PROGRAMME EXPENDITURE - TEA			
DIRECT PROGRAMME EXPENDITURE - TEA	Note 1	(155,223,950)	(199,546)
DIRECT PROGRAMME EXPENDITURE - RUBBER			
DIRECT PROGRAMME EXPENDITURE - RUBBER	Note 2	(31,874,406)	(16,065,569)
TOTAL DIRECT PROGRAMME EXPENDITURE		(187,098,356)	(16,265,115)
SURPLUS/ DEFICIT		116,599,914	10,608,577
RECURRENT EXPENDITURE			
Total Recurrent Expenditure	Note 3	(82,526,872)	(9,694,777)
BASELINE SURVEY		3,237,500	
TRAINING NEED ASSESSMENT		104,558	
MANAGEMENT CONSULTANCY		240,500	
SURPLUS/ (DEFICIT) (LKR) Represented by Fixed Assets		30,490,485	913,800
REPRESENTED BY			
MOTOR BYKES		17,432,500	
OFFICE EQUIPMENT		9,161,985	
FURNITURE		3,895,999	
NET SURPLUS/ DEFICIT		0.00	-

Project Accountant

Date: 28/02/2018
D. Hettiarachchi
Project Accountant
Smallholder Tea and Rubber Revitalization (STARR) Project
Ministry of Plantation Industries
1st Floor, Zimantira Building
No. 465, Ganahena, Battaramulla.

Project Director

Date: 23-03-2018

Secretary of Ministry of Plantation Industries

Date: 27/03/2018
J.A. Ranjith
Secretary
Ministry of Plantation Industries
11th Floor Sethsiripaya Stage II
Battaramulla

NOTE 01	2017	2016
DIRECT PROGRAMME EXPENDITURE - TEA	LKR	LKR
IEC CAMPAIGNS FOR TEA SECTOR	597,182 ✓	199,546
PRA PROGRAMMES FOR FILED ANIMATORS(ToT)	115,263 ✓	
PRA FOR SOCIETY STRENGTHENING - TEA SECTOR	1,010,092 ✓	
DIAGNOSTIC STUDY - TEA SECTOR	1,012,717 ✓	
TRAINING OF TEA SOCIETY MEMBERS ON BP	146,054 ✓	
UPFRONT SUBSIDIES FRO TEA SMALL HOLDERS	135,283,511 ✓	
GOVERNMENT SUBSIDIES FOR TEA SHs	1,798,351 ✓	
SERVICE PAYMENT TO TSHDA	4,888,359 ✓	
EXTENSION SUPPORT FOR TEA GROWERS	1,265,517 ✓	
TRAINING NURSERY GROWERS - TEA SECTOR	87,973 ✓	
ToT ON BP AND FINANCIAL MODELING	426,612 ✓	
PROJECT COORDINATION/ MEETINGS	8,592,321 ✓	
TOTAL	155,223,950	199,546

NOTE 02	2017	2016
DIRECT PROGRAMME EXPENDITURE - RUBBER	LKR	LKR
IEC CAMPAIGNS FOR RUBBER SECTOR	78,680 ✓	50,145
PRA FOR SOCIETY STRENGTHENING	79,170 ✓	
DIAGNOSTIC STUDY	3,500 ✓	
LAND SURVEYING	1,755,610 ✓	16,015,424
UPFRONT SUBSIDIES FOR RUBBER SHs	24,764,682 ✓	
SERVICE PAYMENT TO RDD	1,087,065 ✓	
TRANSPORTATION OF RUBBER PLANTS	1,759,555 ✓	
EXTENSION SUPPORT FOR TEA GROWERS	30,310 ✓	
TRAINING MATERIAL DEVELOPMENT	101,138 ✓	
PROJECT COORDINATION/ MEETINGS	2,214,696 ✓	
TOTAL	31,874,406	16,065,569

NOTE 03		2017	2016
RECURRENT EXPENDITURE		LKR	LKR
		Rs.	
SALARIES		43,124,984 ✓	1,322,727
EMPLOYEES' PROVIDENT FUND		6,019,068 ✓	158,727
EMPLOYEES TRUST FUND		1,504,767 ✓	39,682
COST OF LIVING ALLOWANCE		7,033,918 ✓	
TELEPHONE ALLOWANCES		600,759 ✓	30,233
FUEL ALLOWANCES		56,160 ✓	63,180
OVERTIME/ HOLIDAY PAY		582,713 ✓	7,385
TEMPORARY LABOR HIRE CHARGES		628,500 ✓	
OFFICE RENT		8,715,270 ✓	
INTERNET CHARGES		35,265 ✓	
TELEPHONE AND FAX CHARGES		299,763 ✓	
WATER		44,740 ✓	
STATIONARY & PRINTING EXPENDITURE		2,039,049 ✓	20,271
GENERAL SUPPLIES		584,649 ✓	
OFFICE MAINTENANCE		1,017,925 ✓	5,447,860
EQUIPMENT MAINTENANCE		8,080 ✓	1,600
POSTAGE & COURIER		215,550 ✓	8,006
PROJECT COORDINATION		1,283,681 ✓	1,840,396
BANK CHARGES		91,905 ✓	
CLEANING CHRGES		419,507 ✓	
TRAVEL & VEHICLE HIRE		578,505 ✓	38,484
TRANSLATION		6,521 ✓	
ADVERTISING, PUBLICITY VISIBILITY EXPENDITURE		2,698,414 ✓	716,228
DATA ENTRY CHARGES		296,800 ✓	
INCIDENTIAL EXPENDITURE		64,894 ✓	
VEHICLE OPERATING COST (FUEL)		899,966 ✓	
BYKE OPERATING COST		3,529,443 ✓	
STARTUP WORK SHOP		146,075 ✓	
		82,526,872	9,694,777

MINISTRY OF PLANTATION INDUSTRIES - STARR PROJECT
STATEMENT OF FINANCIAL POSITION AS OF 31.12.2017

	2017		2016	
ASSETS				
CASH & CASH EQUIVILENTS	LKR	LKR	LKR	LKR
Bank Balance - [REDACTED]		-	-	
Bank Balance - [REDACTED]		46,159,780	-	
Bank Balance - [REDACTED]		41,117,287	-	
INVESTMENT COSTS				
Office Equipment (at cost)	9,161,985	✓		
Furniture (at Cost)	3,895,999	✓	913,800	
Motor Byke (at Cost)	17,432,500	✓		913,800
FINANCED BY				
GOSL	(4,243,930)			
IFAD	(26,246,555)	(30,490,485)	(913,800)	(913,800)
TOTAL ASSETS		<u>87,277,067</u>		<u>-</u>
LIABILITIES				
Non Current Liabilities				
IFAD Fund Account	84,712,466	✓		
GOSL Fund Account	(0)	✓ 84,712,466		
Exchange gain/Loss	2,564,601	✓ 2,564,601		
Current Liabilities				
TOTAL LIABILITIES		<u>87,277,067</u>		<u>-</u>

Project Accountant

Date: Dilani Hettiarachchi 26/03/18
Project Accountant
Smallholder Tea and Rubber Revitalization (STARR) Project
Ministry of Plantation Industries
1st Floor, Zimantira Building
No. 465, Ganahena, Battaramulla.

Project Director

Date: 20-03-2018

Secretary of Ministry of Plantation Industries

Date: 27/03/2018

J.A. Ranjith
Secretary
Ministry of Plantation Industries
11th Floor Sethsiripaya Stage II
Battaramulla

MINISTRY OF PLANTATION INDUSTRIES - STARR PROJECT
CASH FLOW STATEMENT FOR THE YEAR ENDED 31.12.2017

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from IFAD	377,568,421	
Cash received from GOSL	28,409,824	26,873,692
Exchange gain	2,564,601	
Expenditure on Project Implementation	(290,775,293)	(25,959,892)
Net Cash Flow on Operating Activities	117,767,552	913,800
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(30,490,485)	(913,800)
Net Cash Flow on Investment Activities	(30,490,485)	(913,800)
CASH FLOW FROM FINANCING ACTIVITIES		
	-	-
Net Cash Flow on Financing Activities	-	-
Cash Balance as of 31 December 2017	87,277,067	-

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT
MINISTRY OF PLANTATION INDUSTRIES
IFAD Loan/Grant Number 2000001447

STATEMENT OF RECEIPTS AND PAYMENTS (BY CATEGORY OF EXPENDITURES)
FOR THE YEAR ENDED DECEMBER 31, 2017

	Description	Notes	2017 Local currency (LKR)	2016 Local currency (LKR)	Cumulative to date Local currency (LKR)
	Balance B/F		-	-	-
	FINANCING				
	IFAD Funds				
	Initial Deposit		303,800,000	-	303,800,000
	Replenishments on Was		73,768,421	-	73,768,421
	IFAD Direct Payments		-	-	-
	Government Funds		28,409,824	26,873,692	55,283,516
	Beneficiary Contribution		1,448,232	-	1,448,232
	Other Receipts		-	-	-
	Recovery of Funds for FY 2016		(19,015,740)		(19,015,740)
	Exchange Gain		2,564,601		2,564,601
	TOTAL FINANCING		390,975,338	26,873,692	417,849,030
	PROJECT EXPENDITURES:				
	(BY CATEGORY OF EXPENDITURES)				
Cat	IFAD CREDIT				
1	Civil Works		-	-	-
2	Equipment & Materials (Including Vehicles)		26,246,555		26,246,555
3	Goods, Services and Inputs (Including Training & Consultancies)		16,206,694	-	16,206,694
4	Capital Grants and Gov. Subsidies		160,048,193	16,015,424	176,063,617
5	Salaries & Allowances other Operating Costs		71,338,773	3,000,316	74,339,089
	TOTAL		273,840,215	19,015,740	292,855,955
	Government Funds				
1	Civil Works		-	-	-
2	Equipment & Materials (Including Vehicles)		4,243,930	913,800	5,157,730
3	Credit		-	-	-
4	Goods, Services and Inputs (Including Training & Cons		7,596,886	-	7,596,886
5	Capital Grants and Gov. Subsidies		1,798,351	-	1,798,351
6	Salaries & Allowances other Operating Costs		14,770,657	6,944,152	21,714,809
	TOTAL		28,409,824	7,857,952	36,267,776
	Beneficiary Contribution				
4	Goods, Services and Inputs (Including Training & Consultancies)		1,448,232		1,448,232
	TOTAL		1,448,232	-	1,448,232
	TOTAL PROJECT EXPENDITURES		303,698,271	26,873,692	330,571,962
	BALANCE C/F		87,277,067	-	87,277,067

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT
MINISTRY OF PLANTATION INDUSTRIES
IFAD Loan/Grant Number 2000001447

STATEMENT OF RECEIPTS AND PAYMENTS (BY COMPONENT)
FOR THE YEAR ENDED DECEMBER 31, 2017

	Description	Notes	2017 Local currency (LKR)	2016 Local currency (LKR)	Cumulative to date Local currency (LKR)
	Balance B/F		-	-	-
	FINANCING				
	IFAD Credit				
	Initial Deposit		303,800,000.00	-	303,800,000
	Replenishments to SA		73,768,420.68	-	73,768,421
	IFAD Direct Payments		-	-	-
	Government Funds		28,409,824	26,873,692	55,283,516
	Other Donors		1,448,232	-	1,448,232
	Other Receipts		-	-	-
	Recovery of Funds for FY 2016		(19,015,740)	-	(19,015,740)
	Exchange Gain		2,564,601	-	2,564,601
	TOTAL FINANCING		390,975,338	26,873,692	417,849,030
	PROJECT EXPENDITURES: (BY COMPONENT)				
Comp	IFAD CREDIT				
A.	Tea Smallholder Development		147,270,148	88,888	147,181,261
B.	Rubber Smallholder Development		28,984,739	16,040,497	12,944,243
C.	Inclusive Rural Financing		-	-	-
D.	Project Management		97,585,328	2,886,356	94,698,972
	TOTAL		273,840,215	19,015,740	292,855,954
	Government Funds				
A.	Tea Smallholder Development		6,505,570	110,658	6,616,228
B.	Rubber Smallholder Development		2,889,667	25,073	2,914,739
C.	Inclusive Rural Financing		-	-	-
D.	Project Management		19,014,587	7,722,221	26,736,808
	TOTAL		28,409,824	7,857,952	36,267,776
	Beneficiary Contribution				
A.	Tea Smallholder Development		1,448,232	-	1,448,232
	TOTAL		1,448,232	-	1,448,232
	TOTAL		303,698,271	26,873,692	330,571,962
	TOTAL PROJECT EXPENDITURES		-	-	-
	BALANCE C/F		87,277,067.24	-	87,277,067.24

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT
MINISTRY OF PLANTATION INDUSTRIES
IFAD Loan/Grant Number 2000001447

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Description	Notes	2017 Budget Local currency (LKR)	2017 Actual Local currency (LKR)	Variance Local currency (LKR)
	FINANCING				
	IFAD Credit				
	Initial Deposit		910,946,139	303,800,000	533,377,718
	Replenishments to SA			73,768,421	
	IFAD Direct Payments		-	-	-
	Government Funds		425,478,283	9,394,084	416,084,198
	Beneficiary Contribution		95,032,380	1,448,232	93,584,148
	Banks & Private Sector		139,875,000		139,875,000
	Exchange Gain			2,564,601	(2,564,601)
	TOTAL FINANCING		1,571,331,801	390,975,338	1,180,356,463
	PROJECT EXPENDITURES:				
	<i>(BY CATEGORY OF EXPENDITURES)</i>				
Cat	IFAD CREDIT				
1	Civil Works		152,078,741	-	152,078,741
2	Equipment & Materials (Including Vehicles)		120,999,096	26,246,555	147,245,651
3	Goods, Services and Inputs		118,640,760	16,206,694	134,847,454
4	Capital Grants and Gov. Subsidies		387,375,000	160,048,193	547,423,193
5	Salaries & Allowances, Operating Costs		131,852,542	71,338,773	316,036,227
			910,946,139	273,840,215	1,297,631,266
	Government Funds				
1	Civil Works		13,887,750	-	13,887,750
2	Equipment & Materials (Including Vehicles)		33,675,177	4,243,930	29,431,247
3	Credit		-		-
4	Goods, Services and Inputs		37,388,326	7,596,886	29,791,440
5	Capital Grants and Gov. Subsidies		319,339,800	1,798,351	317,541,449
6	Salaries & Allowances, Operating Costs		21,187,229	14,770,657	6,416,572
	TOTAL		425,478,283	28,409,824	397,068,459
	Beneficiary/Banks and Private Sector				
1	Civil Works		59,224,711		59,224,711
2	Equipment & Materials (Including Vehicles)				-
3	Credit		139,875,000		139,875,000
4	Goods, Services and Inputs		8,782,669	1,448,232	7,334,437
5	Capital Grants and Gov. Subsidies		27,025,000		27,025,000
6	Salaries & Allowances, Operating Costs				-
			234,907,380	1,448,232	233,459,148
	TOTAL PROJECT EXPENDITURES		1,571,331,801	303,698,271	1,928,158,873
	Surplus/Deficit for the period		-	87,277,067	(747,802,409)

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT
MINISTRY OF PLANTATION INDUSTRIES
IFAD Loan/Grant Number 2000001447

STATEMENT OF SPECIAL ACCOUNT ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Account No
Bank
Address

	Description	Notes	USD (or as otherwise denominated)	Local Currency Equiv (LKR)
Opening Balance				
Add:				
IFAD Replenishments:				
<i>Date</i>	<i>Reference</i>			
17-May-17	WA No 01 - Initial Deposit		2,000,000	303,800,000
15-Jun-17	WA No 02		124,693	19,015,739
31-Aug-17	WA No 03		182,123	27,954,858
12-Oct-17	WA No 04		174,618	26,797,824
	Bank Interests		-	-
Total Receipts			2,481,434	377,568,421
Deduct:				
Transfers to Operating Accounts:				
<i>Date</i>	<i>Reference</i>			
22-May-17	Local WA-1		321,415	49,015,739
27-Jul-17	Local WA-2		65,115	9,999,999
21-Aug-17	Local WA-3		195,634	30,000,000
29-Sep-17	Local WA-4		326,588	49,999,999
7-Nov-17	Local WA-5		651,741	99,999,999
4-Dec-17	Local WA-6		651,946	99,999,999
Total Transfers			2,212,439	339,015,735
Bank Charges				
Exchange Rate Difference				2,564,601
Closing Balance as at 31/12/2017			268,996	41,117,287
(as per Bank Statement)			268,995	

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT
MINISTRY OF PLANTATION INDUSTRIES
IFAD Loan/Grant Number 2000001447

STATEMENT OF SPECIAL ACCOUNT RECONCILIATION
FOR THE YEAR ENDED DECEMBER 31, 2017

Account No

Bank

Address

		Date	USD (or as otherwise denominated)
1	Initial Deposit		2,000,000
2	Less amount(s) recovered:		-
3	Outstanding Amount advanced		2,000,000
4	Represented by:		
	Special Account Balance as at 31/12/2017		268,996
	Operating Account Balance as at 31/12/2017		300,937
	Total Balance at Bank account as at 31/12/2017		569,933
5	Plus amounts claimed but not yet credited as at 31/12/2017		
	WA - 05		909,676
			909,676
	Plus amounts withdrawn not yet claimed, composed of:		
	WAs Prepared not yet submitted:		
	Expenditure for the month of December 2017		
	WA -06		520,391
6	Total amount withdrawn not yet claimed		
7	Less Interest earned and/or plus Bank charges (if included in the Special Account)		-
	Exchange gain Loss		
8	Total Special Account Advance as at 31/12/2017		2,000,000
	Difference between Line 3 and line 8		0

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT MINISTRY OF PLANTATION INDUSTRIES/IFAD Loan/Grant Number 2000001447

SOEs-WITHDRAWAL APPLICATION STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2017

by Category of Expenditures in Local Currency

Notes	Category description	Civil Works	Equipment & Materials (Including Vehicles)	Goods, Services and Inputs (Including Training & Consultancies)	Capital Grants and Gov. Subsidies	Salaries & Allowances other Operating Costs	Total (LKR)	In USD Equivalent	Rejected from IFAD	Net Reimbursed (LKR)
Cat No		1	2	3	4	5				
WA No:										
1 - Initial Authorized Allocation										
2 - Expenditure for FY 2016					16,015,424	3,000,316	19,015,740	124,693	-	19,015,740
3 - Expenditure for January - June 2017		-	-	378,270	-	27,395,413	27,773,683	182,123	-	27,773,683
4 - Expenditure for July - August 2017		-	-	166,779	12,176,342	14,436,519	26,779,640	174,618	-	26,779,640
5 - September - November 2017		-	16,623,664	12,637,006	91,053,927	19,142,933	139,457,531	909,480	-	139,457,531
Total Value of the WA's already submitted		-	16,623,664	13,182,056	119,245,694	63,975,180	213,026,594	1,390,915		213,026,594
WA Pending for Submission:										
WA No: 06 - Expenditure for December 2018			9,448,740	3,743,838	56,818,014	9,818,769	79,829,360	520,391	-	79,829,360
TOTAL EXPENDITURE			26,072,405	16,925,894	176,063,707	73,793,949	292,855,954	1,911,306	-	292,855,954

SMALLHOLDER TEA AND RUBBER REVITALIZATION (STARR) PROJECT
MINISTRY OF PLANTATION INDUSTRIES
IFAD Loan/Grant Number 2000001447

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Basis of Preparation of Financial Statements

The Financial Statements of the STARR Project for the year ended December 2017 has been prepared in accordance with International Public-Sector Accounting Standards (IPSAS) and Generally Accepted Accounting Principles. Accordingly, Cash Basis Financial Reporting under the Cash Basis of Accounting has been adopted to prepare the Financial Statements.

2. Income and Expenditure Recognition

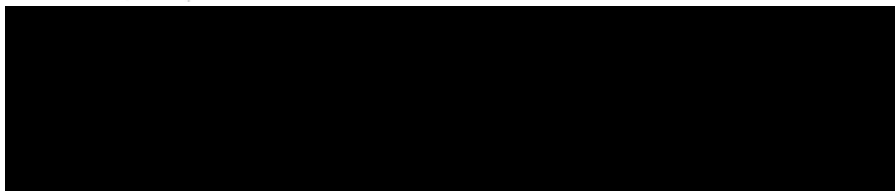
Income realized from funds are recognized in the Statement of Comprehensive Income only when there is certainty that all the conditions for receipt of funds have been complied with and the relevant expenditure that it is expected to compensate has been incurred. The Cash basis of Accounting has been adopted for recognition of Income and Expenditure. Income from each financing source has been recognized based on expenditure worked out in accordance with the funding percentages by each financier indicated in the initial cost tables of the Project Design Report.

3. Operation of the Special Foreign Currency Bank Account at the Central Bank of Sri Lanka, Account No. 73312 (Sub Ledger No. 16)

During the year under concern, the Project received the initial authorized allocation from IFAD amounting to USD 2.0 mn equivalent to Rs.303.8 mn in the month of May 2017. The Project managed to disburse the funds from IFAD account and time to time replenished the funds from Central bank on submission of the withdrawal settlements.

During the year the project incurred an exchange gain of Rs. 2,564,600 on Foreign currency account.

4. Operation of the Local Currency Bank accounts at the Bank of Ceylon



During FY 2017, expenditure was managed through both above accounts. The Project prepared the accounts based on the funding rules appeared in the PDR and time to time settlements was done with in the bank accounts to ensure the correct amount of expenditure was charged from each source. At the end of the financial reporting period, balance in the Current Account No. 7040727 (GoSL funds) was transferred to the bank account of the Ministry of Plantation Industries on closing of the transactions for the period.

5. The AWPB & Financing of the Project during FY2017

The AWPB 2017 valuing LKR 1,571 Mn was given No objection by IFAD and the National Steering Committee.

The summary of the budget by Categories of expenditure is as follows.

Table 5 : Annual Work Plan 2017

IFAD Budget Category	Acc Code	IFAD	Benefi- ciaries	GOSL	Private Sector	Bank	TOTAL
I. Investment Costs:							
A. Civil Works		152,079	59,225	13,888	-	-	225,191
B. Equipment & Materials (Including Vehicles)		120,999	-	33,675	-	-	154,674
C. Credit		-	-	-	-	139,875	139,875
D. Goods, Services and Inputs (Including Training & Consultancies)		118,641	8,783	37,388	-	-	164,812
E. Capital Grants and Gov. Subsidies		387,375	27,025	319,340	-	-	733,740
II. Recurrent Costs			-				
F. Salaries & Allowances other Operating Costs		131,853	-	21,187	-	-	153,040
Grand Total		910,946	95,032	425,478	-	139,875	1,571,332

6. Direct Payments

No Direct payments have taken place during the year under consideration.

7. Government Counterpart Funding

During the year LKR 29.8 mn has been received from Ministry of Plantation Industries as counterpart funding and the Project has utilized LKR 28.4. The taxes involved in all the bills paid during the year have fully being accounted as GoSL contribution.

8. Funds from Other Sources

The value of the beneficiary Contribution towards the Project for FY 2017 amounts to LKR 1.4 mn.

9. Other Receipts

No any receipt from any other sources other than GoSL funding during the year.

10. Capital Grants and Subsidies during 2017

The Project has disbursed LKR 135 mn and LKR 24.7 mn as upfront payments to Tea Smallholders and Rubber Small holders respectively during the reporting year. The Government Subsidies for Tea Sector amounted to LKR 1.8 during the year.

11. Salaries, Allowances and Other Operating Costs

Salaries, Allowances and Operational Expenditure incurred during 2017 amounting of LKR 86.1 mn (out of which LKR 71.3 mn has been accounted as IFAD Contribution and LKR 14.7 mn accounted as GoSL Contribution)