Institute of Post Harvest Technology

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1. Financial Statements

1.1 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 the Institute of Post Harvest Technology had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with generally accepted accounting principles , give a true and fair view of the state of affairs of the Institute of Post Harvest Technology as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Best Accounting Practices

The following matters were revealed.

(a) Incidents occurring after the balance sheet date should be disclosed in the financial statements. However, damages estimated at Rs.12,823,416 caused to the properties of the Institute as a result of the floods on 3,4 and 5 of February 2011 had not been disclosed in the financial statements.

(b) Action had not been taken to revalue and bring to accounts the values of seven types of fixed assets costing Rs.30,004,266 which continued to be used although they had been fully depreciated.

(c) Expenditure incurred on obtaining patent licences should be shown as fictitious assets in the financial statements. However, it has not been done so with regard to the sum of Rs.24,300 spent for obtaining patent licences for 3 products during the year under review.

1.2.2 Accounting Policies

It is the general accounting policy of the Institute to adopt accrual basis for accounting. However, the income from training courses and the income from hostel fees had been accounted on cash basis.

1.2.3 Accounting Deficiencies

The following deficiencies were observed.

(a) Hostel fees of Rs.68,577 recoverable on behalf of 5 training courses conducted in 2010, training course fees of Rs.90,100 and the service charges of 10% amounting to Rs.26,243 receivable for food supplied for private courses had not been identified as income receivable and accounted for.

(b) Withholding tax of 10% amounting to Rs.267,678 pertaining to the sum of Rs.2,676,775 paid as interim bills on behalf of constructing 8 kitchens for hostels had not been accounted as current liabilities.

(c) Goods aggregating Rs.179,695 purchased on 14 instances during the year under review had not been brought to accounts as fixed assets.

(d) Fourteen items of accrued expenses valued at Rs.438,952 had been understated in the accounts. As a result, the deficit of the year under review had been understated by a similar amount.

(e) Prepayments aggregating Rs.260,912 made on 14 instances such as the sum of Rs.31,500 paid as house rent of the Nuwara-Eliya field centre for the year 2011 and the insurance fees, vehicle revenue licence fees and the service agreement fees etc., had been accounted as expenditure of the year under review. As a result, the expenditure of the year under review had been overstated by a similar account.

(f) The loss of Rs.319,754 during the year under review pertaining to the Project for cultivation of unused land of the Institute had been shown as Institutional and Administration Expenses in the Income and Expenditure Account.

(g) Advances to be settled to outsiders by the Institute (credit balance) amounting to Rs.318,861 and advances recoverable by the Institute from outsiders (debit balance) amounting to Rs.438,914 during the year under review should be separately shown in the financial statements. However, those balances had been set off against one another and the subsequent net balance of Rs.120,053 had been shown as interim advance balance under the current assets.

1.2.4 Un-reconciled Control Accounts

The following non reconciliations were observed.

(a) According to the financial statements, advances receivable and the debtors' balances were Rs.191,807 and Rs.1,145,453 respectively. But, the balances were Rs.212,175 and Rs.1,142,853 respectively according to the schedule/subsidiary register. Accordingly, the un-reconciled differences among the accounts amounted to Rs.20,368 and Rs.2,600 respectively.

(b) The balance of the bank charges account was Rs.130,892 as per ledger and it was Rs.109,686 as per trial balance. But, the expenditure on bank charges for the year amounted to Rs.104,264 as per bank statements.

1.2.5 Accounts Receivable and Payable

The following matters were revealed.

(a) Accounts Payable

The following deposits remaining unsettled for a long time without being settled had not been settled during the year under review too.

(i) The old balance of tender deposits amounting to Rs.279,854 at the head office exceeding a period of 4 years and an old balance of security deposits of the Anuradhapura Development Centre amounting to Rs.77,780 exceeding a period of 2 years.

(ii) Retention money of contracts amounting to Rs. 2,208,850 security deposits of contracts amounting to Rs.5,665 and advances amounting to Rs.2,820 remaining unsettled for a period of over 4 years, 5 years and 12 years respectively.

(b) Accounts Receivable

(i) Action had not been taken to recover old interim advances aggregating Rs.247,107 remaining receivable for over 3 years and the unsettled travelling advances aggregating Rs.18,916 due from officers who are in service at present, remaining unsettled for over 3 years.

(ii) Festival advances paid to officers should be recovered in 10 installments. However, out of the balances of festival advances receivable, a sum of Rs 29,094 remained unrecovered from the year 2006 or years prior to it.

(iii) The sum of Rs.604,859 remaining recoverable from state institutions and individuals for over 2 years and the sum of Rs.263,200 remaining recoverable from the Samurdhi Authority for over 1 year had been included in the debtors. These had not been recovered.

(iv) Action had not been taken even during the year under review to recover the sum of Rs.1,485,455 due for over 13 years which had been shown as income receivable in the financial statements.

1.2.6 Lack of Evidence for Audit

The following lack of evidence were revealed.

(a) Register of fixed assets and register of computers relating to fixed assets totally valued at Rs.83,608,866, confirmation of balances of miscellaneous creditors and debtors aggregating Rs.227,460 and Rs.1,338,590 respectively and schedules pertaining to creditors and debtors.

(b) Detailed schedules relating to tender deposits amounting to Rs.279,854, withholding tax amounting to Rs.413,529 and advances amounting to Rs.28,467 which had been shown as current liabilities in the financial statements.

1.2.7 Non compliance with Laws, Rules and Regulations

The following non compliances were observed.

Reference to Laws, Rules and Regulations etc.	Non compliance
(a) Section 153 of the Inland Revenue Act No. 10 of 2006	Action had not been taken to deduct withholding tax amounting to Rs.36,843 and remit it to the Commissioner General of Inland Revenue on behalf of the sum of Rs. 755,867 paid to 5 suppliers vide 10 paid vouchers, the monthly payments of which had exceeded Rs. 50,000.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) F.R. 104	Any losses caused to state properties should be investigated and the persons responsible should be determined. However, investigations had not been held for 3 accidents caused to vehicles during the year under review.
(ii) F.R. 110	A register of losses had not been maintained to note details of losses.
(iii) F.R. 396	Action had not been taken in terms of the F.R. with regard to 2 cheques valued at Rs. 88,800, the validity period of which had lapsed due to non presentation for payment after being issued.
(iv) F.R. 1645	Log books had not been properly maintained in Form General 267 with regard to vehicles belonging to the Institute.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented, the operating results of the Institute for the year's under review was a deficit of Rs.6,584,695 as compared with the previous years deficit of Rs.2,941,713. Accordingly, a deterioration of Rs. 3,642,982 is shown in the financial results during the year under review. The loss of Rs.1,501,995 caused by the rice allied food production (noodles production) and the decrease in income from fixed deposits by Rs. 3,261,237 as compared with that of the previous year had mainly attributed to the deterioration in financial results of the year under review.

2.2 Operating Review

2.2.1 Performance

The following matters were observed.

(a) Although 4 years had elapsed since the commencement of the propagation programme of usage of plastic packaging for minimizing damages caused to vegetables and fruits while transporting, the number of packaging issued by the end of the year under review was 118,349. This was a low level of about 30% of the expected target.

(b) A project to cultivate about 6 acres of the land of the Institute remaining unused had been commenced under the theme " Api Wawamu - Rata Nagamu" . It was observed that this was continuously running at a loss due to matters such as estimated income not being achieved, inexcessive expenditure on maintenance and lack of proper administration. Although it was expected to earn an income of Rs.589,000 per year from short term crops, a sum of Rs.257,666 representing 44% alone had been obtained during the year under review. Action had not been taken to get the income concerned to be kept on records under the supervision of a responsible officer and no progress reports relating to the project had been issued since its commencement.

(c) A stock of noodles amounting to Rs.2,344,606 was available for sale at the stores at the commencement of the year. A further stock of noodles valued at Rs.2,139,639 had been produced during the year. A stock worth Rs.1,628,970 was remaining at the stores at end of the year. The income from sale of noodles during the year under review had increased by 18.5% as compared with that of the previous year. However, a gross profit of Rs.1,501,995 had occurred by selling noodles with a sales cost of Rs.2,855,275 for Rs.1,353,280. It was a deterioration of 622% as compared with the profit of the previous year.

(d) Eight field centres had been established island-wide with the objective of propagating the duties of the Institute. The monthly progress reports had highlighted that the expected duties had not been fulfilled at a satisfactory level in those field centres. In certain instanced targets fixed for various activities of the field centres had not been implemented even by end of the year.

(e) Performance of the Research Project

The following observations are made with regard to the research projects implemented by the Institute during the year 2010.

(i) The Research Planning Committee of the Institute had approved 22 projects for implementation during 2010. Of these, 21 projects had been implemented, of which, 5 had been completed.

(ii) Although it had been intimated that the research had been completed, the final project reports of 3 projects of 2008, 3 projects of 2009 and 8 projects of 2010 had not been filed of record.

(iii) Documents such as approval of the Board of Directors for the respective research plans, extracts of the research plan committee reports, project plans approved, project budget and work plan and letters assigning the responsibility of the implementation of the research project etc had not been included in the project files relating to the research project.

2.2.2 Management Inefficiencies

The following matters were revealed.

(a) Four deposits aggregating Rs.115,155 which had not been credited to the account remained unrealized for over 2 months. But, action had not been taken even as at 31 August 2011 to find out the reasons for it and take necessary action.

(b) Action had not been taken to identify 12 deposits totally valued at Rs.155,467 and to bring them to accounts. These had been credited to the bank account of the Institute up to November 2010 as direct remittances. Meanwhile, a systematic internal method had not been adopted within the Institute to identify and bring to account the direct remittances credited to the bank account.

2.2.3 Operating Inefficiencies

On a request made by the Board of Directors of the Institute, the Provincial Department of Valuation had assessed the rent of official quarters and furnished a report in November 2010 regarding the rent recoverable. But, action had not been taken to recover rent according to that valuation. As a result, it was observed that the arrears of rent due in 2010 was Rs. 51,150 and the arrears of rent due for the first 5 months of 2011 was Rs. 127,875.

2.2.4 Uneconomic Transactions

A building had been obtained on a monthly rent of Rs. 30,000 to maintain the Kurunegala Field Centre. In spite of the fact that the period of agreement concerned had ceased on 1 June 2010, a further sum of Rs. 60,000 had been paid as rent for June and July 2010.

2.2.5 Idle and Under Utilized Assets

Four vehicles valued at Rs. 926,622 belonging to the Institute remained unused even by the end of the year under review.

2.2.6 Human Resources Management

The approved cadre of the Institute is 155. There were 67 vacancies at end of the year under review.

2.2.7 Internal Audit

An internal audit unit had been established by spending over Rs. 400,000 per year, as salaries and wages, in order to review the management and internal control systems of the Institute and to report the weaknesses to the management. However, adequate action had not been taken to rectify the deficiencies and weaknesses pointed by the internal audit through audit queries. The management had not made use of the internal audit and the internal control procedures as an effective method of control.

3. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

(a) Fixed Assets Control
(b) Control over Official Residences
(c) Staff Control and Internal Distribution of Work.
(d) Debtors' and Creditors' Control
(e) Accounting