

## **Institute of Post-Harvest Technology - 2013**

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The audit of financial statements of the Institute of Post-Harvest Technology for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance , statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements 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 13(1) of the Finance Act, No. 38 of 1971. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act, appear in this report.

### 1:2 Management's Responsibility for the Financial Statements

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards 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.

### 1:3 Auditor's Responsibility

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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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute for the 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 internal control of the Institute. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### 1:4 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Institute of Post-Harvest Technology as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2 Comments on Financial Statements

2.2.1 Accounting Deficiencies.

The following observations are made.

- (a) The interest of Rs.10,561 received during the year under review had not been brought to accounts.
- (b) A capital asset (Submersible Aerated Pump) valued at Rs.146,893 purchased for the research projects during the year under review had been written off against the revenue in considering as an expenditure under research projects instead of showing under the fixed assets.
- (c) Seven equipment valued at Rs. 3,325,000 received by the institute as donations under the World Food Programme in 2011 and 2012 and 05 equipment the value of which had not been estimated, had not been accounted.
- (d) Without rectifying 04 items of income and expenditure of Rs. 259,880 pointed out by the report of the Auditor General on the financial statements for the year 2012, the financial statements for the year under review had been prepared.
- (e) Even though fully depreciated fixed assets valued at Rs.62,736,724 pertaining to 08 items had been utilized during the year under review, those assets had not been revaluated and brought to the accounts.
- (f) The condemned and obsolete machine meant for the removal of black seeds from rice to the book value of Rs.5,736,788 which had not contributed to the operations during the period had not been removed from the financial statements and depreciation thereon amounting to Rs.430,259 for the year under review had been debited to the Income and Expenditure Account.
- (g) Adjustments of Rs.195,560 pertaining to the preceding year had been made to the cumulative profit of the statement of equity instead of making adjustments retrospectively in the financial statements.
- (h) Action had not been taken to recover a sum of Rs.588,825 receivable for the rent of hostels and supply of foods to the outside parties and it had not been accounted as a

receivable amount. Nevertheless, the expenses incurred for this purpose had been treated as the expenditures of the institute.

### 2.2.2 Accounts Receivable and Payable

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The following observations are made.

- (a) Even though 125 plastic crates valued at Rs. 74,500 and 50 plastic crates valued at Rs. 19,000 had been given to the National Food Promotion Board and Mahiluppallama Agro Crops Research and Development Institute respectively on credit basis in 2012, action had not been taken either to recover the relevant money or get back those plastic crates.
- (b) Even though assets and liabilities of the Paddy Marketing Board as at 30 June 2000 had been legally transferred to the Institute of Post-Harvest Technology in October 2006, action had not been taken for the settlement of 14 debit balances totalling Rs.6,133,917 and 11 credit balances totalling Rs. 1,088,851 remaining over a long period.

### 2.2.3 Lack of Evidence for Audit

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For the purpose of carrying out investigation and monitoring activities, an officer had been appointed to a post, which is not included in the approved cadre of the institute, without the approval of the Board of Control and a sum of Rs. 95,400 had been paid for fuel expenses in 8 instances during the year under review. Nevertheless, reports confirming that the said officer had carried out monitoring activities of the institute had not been furnished to audit.

### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	Even though a period of 2 to 19 years had elapsed, action had not been taken to credit 8 deposits balances totalling Rs.2,169,713 to the revenue.
(b) Treasury circular No. PED 58 (2), dated 15 September 2011	Recovery of PAYEE-Tax of Rs.18,000 for the month of November and December during the year under review from two officers whose monthly salary exceeded Rs.50,000 had been suspended without an approval.

2.4 Transactions not supported by adequate authority.

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The following observations are made

- (a) A female officer entitled to monthly fuel allowance had obtained an allowance of Rs.328,270 for 2040 liters of fuel obtained at 170 liters of fuel per month as approved for the year under review. Apart from this allowance, an additional 767.5 liters of fuel valued at Rs.109,386 had been obtained for her official vehicle, but the approval of the Chairman of the institute had not been obtained in terms of paragraph 04 of the Circular No.PED/50 dated 28 June 2008.
- (b) Contrary to the objectives set out in the Gazette pertaining to the establishment of the institute, a sum of Rs.47,623 had been spent without the approval of the Board of Control in respect of expenditures irrelevant to the operations of the institute.

3. Financial Review

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Financial Results

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According to the financial statements presented, the operations of the Institute for the year ended 31 December 2013 had resulted in a deficit of Rs.16,567,327 as compared with the corresponding deficit of Rs.4,893,838 for the preceding year, thus indicating an increase of Rs.11,673,489 in the financial results of the year under review as compared with the preceding year. The decrease in other income by Rs.10,360,667 during the year under review as compared with the preceding year had mainly attributed to the above position.

4. Operating Review

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4:1 Performance of Research Projects

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The following observations are made.

- (a) Although it was proposed to purchase a cool house valued at Rs.2.5 million under a special project during the year under review for the minimization of damages caused to fresh vegetables and fruits, it had not been implemented.
- (b) A sum of Rs.1,179,938 had been incurred for the research projects carried out by the institute. Even though the results of those researches had been published through the newspaper advertisements, distribution of leaflets, conduct of research symposiums, it had not been established whether the results of the relevant researches had been utilized in the field of post-harvest.
- (c) Since the inception of the institute an accounting policy for accounting the value of machines invented under various projects through the identification of their cost using an appropriate method had not been determined. Action had not been taken to preserve the right of inventions by obtaining patents for recording in the stock registers and bring them to accounts with the identification of life span of the machines.

- (d) The institute had not maintained an adequate database on the utilization of relevant technology by the beneficiaries of the development projects implemented in the institute.

4.2 Identified Losses

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A shortage of 1993 plastic crates valued at Rs.1,190,814 and stocks purchased for the research activities valued at Rs.257,708 existed at the field centres and noodle stores of the institute was observed.

4.3 Management Inefficiencies

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The following observations are made.

- (a) It was observed that 5,849 crates valued at Rs.1,754,700 purchased prior to 9 years under the Programme for Popularizing the Use of Plastic Crates for Minimizing the Damage caused to Vegetables and Fruit during transport and 04 mobile stalls valued at Rs.350,000 built for the distribution under the Programme for Distribution of Equipment at 50 per cent beneficiary contribution had remained without being distributed even by the end of the year under review.
- (b) The income of Rs.9,201,546 earned from the sale of plastic crates under the Programme for Popularizing the Use of Plastic Crates for Minimizing the Damage caused to Vegetables and Fruit during transport had been retained in the accounts without being utilized for the popularization of this programme.

4.4 Resources of the Institute supplied to other Government Institutions

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- (a) Contrary to Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, three officers of the Institute had been attached to the Minister's Office of the Ministry of Agriculture in the year 2010. The approval of the Cabinet of Ministers had not been obtained in this connection and the Institute had paid a sum of Rs.990,627 as the salaries and allowances for the year under review and Rs.1,654,388 for the preceding year.
- (b) In terms of the Public Enterprises Circular No.116 of 24 January 2007, although resources owned by the Public Enterprises should not be utilized for the activities of the other Ministries, contrary to that a vehicle of the Institute had been issued to the Ministry of Agriculture in the year 2011. The Institute had incurred a sum of Rs.140,181 in respect of the year under review and Rs.143,256 for the preceding year for this vehicle.

4.5 Personnel Administration

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The approved cadre as at 31 December of the year under review was 153 and the actual cadre amounted to 111. As such the number of vacancies as at that date was 42.

4.6 Idle and Underutilized Assets.

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Even though 06 motor vehicles valued at Rs.932,457 belonging to the Institute had been lying idle over periods ranging from 03 to 11 years, suitable action had not been taken for the disposal of those motor vehicles.

5 Accountability and Good Governance

5.1 Procurement Plan.

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Goods valued at Rs.526,533 which had not been included in the procurement plan pertaining to the year 2013 had been purchased during the year.

5.2 Budgetary Control

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When comparing the variances of the budgeted and actual values, there were excess 43 of per cent in 16 Objects and 82 per cent savings in 9 Objects and as such the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

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

- (a) Income control
- (b) Budgetary control
- (c) Motor Vehicle control
- (d) Personnel Administration
- (e) Implementation of Research and Development projects.