Institute of Post-Harvest Technology - 2014

The audit of financial statements of the Institute of Post-Harvest Technology for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 information 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

The management is responsible for the preparation and fair presentation of these financial statements in accordance with 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

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 Auditing 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 judgement, 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'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 Institute's internal control. 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 powers to the Auditor General to determine the scope and 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

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 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 Institute of Post-Harvest Technology as at 31 December 2014 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 Going Concern of the Institute

As the Institute had incurred losses continuously since the year 2011, an increase in the accumulated loss, and a decrease in the net assets can be observed in accordance with the following particulars. Accordingly, it appears that further continuation of the Institute without a financial assistance of the Government, is questionable.

Year	**2011**	**2012**	**2013**	**2014**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Loss	(7,480,881)	(4,893,838)	(16,567,327)	(17,488,986)
Net Assets	145,129,332	131,597,734	115,225,967	100,231,803

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The value of laboratory equipment valued at Rs. 47,395,575 obtained on credit basis during the year under review, had not been accounted.

(b) Expenses of Rs. 4,498,267 incurred on the repairs of buildings in the year prior to the year under review, had been shown as work in progress under non-current assets instead of being adjusted retrospectively.

(c) Capital grants amounting to Rs. 70,401,000 received from the Treasury in the year under review, had not been brought to accounts. Instead, it had been shown as unidentified receipts in the bank reconciliation statement by the end of the year.

2.2.3 Unexplained Differences

The following observations are made.

(a) According to the financial statements as at 31 December of the year under review, the workers loan special balance amounted to Rs.539,540, whereas it was Rs.482,917 according to the debtors' schedules. Thus, a difference of Rs. 56,623 was observed.

(b) Even though the Income from the lecture halls fees amounting to Rs. 442,850 had been shown in the statement of financial performance, it was Rs. 548,450 according to the subsidiary registers, thus observing a difference of Rs. 105,600.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken either to recover or settle 06 debit balances totalling Rs.417,036 and 10 credit balances totalling Rs. 8,414,980 that had remained due over a long period.

(b) Action had not been taken to recover a value of Rs. 93,500 in regard of 175 plastic crates granted on credit basis to the National Food Promotions Board and the Agricultural Crops Research Development Board in Mahailluppallama.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Even though the recommendation of the Department of National Planning and the approval of the Cabinet of Ministers should have been sought for the projects over Rs. 20 million in terms of National Budget Circular No. 138 of 04 April 2008, a sum of Rs. 63,932,281 had been paid for the laboratory renovation project.

2.5 Transactions not Supported by Adequate Authority

The following observations are made.

(a) Fuel allowance amounting to Rs. 121,000 had been paid in 10 instances to a Coordinating Secretary of the Minister of Agriculture for investigations and observations of the Institute of Post-Harvest Technology in the year under review without proper approval. However, none of the reports on the observations made by the said officer had been presented to the management of the Institute. Furthermore, the Board of Directors had not approved the aforesaid appointment and such a post had not been created in the approved cadre.

(b) Contrary to the objectives of the Institute, expenses totalling Rs. 193,150 had been incurred on various activities relating to welfare without approval of the Board of Directors.

(c) Without obtaining the approval of the Treasury, stocks damaged by floods totalling Rs.1,007,908 had been written off.

(d) Contrary to Paragraph 02 of the Management Services Circular No. 5/2014 dated 21 November 2014, a sum of Rs. 260,010 had been paid as bonus for the year 2014 without obtaining the approval of the Treasury.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2014 had resulted in a deficit of Rs.17,488,986 as compared with the corresponding deficit of Rs.16,567,327 for the preceding year, thus indicating a deterioration of Rs.921,659 in the financial results. The increase in the deficit for the year under review had mainly been caused by the increase in the provision for depreciation on the fixed assets by a sum of Rs. 207,330, and writing off of a sum of Rs. 1,007,908 in view of the damages caused by floods.

3.2 Management of Investments

As investments amounting to Rs. 12,748,000 existed as fixed deposits during the period from 2012 to 2014, had been withdrawn and obtained capital assets therefrom, investments of the Institute , had diminished and the income from the investments had deprived of.

4. Operating Review

4.1 Performance

The following observations are made.

(a) A number of 7,937 plastic crates worth Rs. 3,475,042 that had been purchased 8 years ago under the program to promote the plastic crates in order to mitigate the post-harvest damages caused during the transportation of fruits and vegetables, had remained undistributed even by the end of the year under review.

(b) Under development projects for the year 2012, four mobile stalls worth Rs. 350,000 that had been manufactured under the program to distribute equipment among the beneficiaries with a contribution of 50 per cent from them, had remained at the stores without being distributed even by the end of the year under review, and action had not been taken to distribute those equipments among suitable beneficiaries.

(c) Twenty Ricecream machines worth Rs. 4,200,000 had been obtained with a view to improving the production of subsidiary crops including rice under the subsidiary crops program of the year under review. Those machines remained idle in the Institute without being distributed even by 30 June 2015 due to failure in identifying the suitable beneficiaries.

(d) Even though the Institute should implement research projects that are suitable to the field, easily executable, and meet the market demand, agricultural and post-harvest filed together with the corporation of research officers, the staff engaged in promotional activities, and the relevant beneficiary groups in a manner that paves the way for identification of research projects, preparation of research proposals and making it possible to achieve the mission and objectives of the Institute, the productivity of the projects implemented by the Institute remained low.

(e) Most of the machinery out of 31 invented by the Institute of Post-Harvest Technology since its inception incurring hefty costs under various research projects, remain only in the exhibition level. Actions had not been adequately taken to promote and introduce those machinery and technologies to the market. An expense of Rs. 3,871,862 had been incurred for promotional services during the year under review including sums of Rs.1,742,236 and Rs.2,129,626 paid as salaries to 03 project officers, and field officers and other employees working at 09 field centers respectively. However, priority had not been given to the activities relating to the dissemination of results of the researches conducted by the Institute.

(f) In accordance with the Action Plan of the Institute, development projects are implemented under 06 fields, and a sum of Rs. 738,054 had been spent on the training programs of those projects in the year under review. However, the Institute had not maintained a data system for the other development projects except for rice, and productions based on rice.

4.2 Under-utilization of Funds

A sum totalling Rs. 13,458,830 including sums of Rs. 4,207,384 earned from the sale of barrels used for steaming paddy, and Rs. 9,251,446 earned from sale of plastic crates under the program to promote the plastic crates in order to mitigate the post-harvest damages caused during the transportation of fruits and vegetables, had been retained in fixed deposits even by 30 June 2015 without being utilized for the promotion of relevant programs.

4.3 Idle and Under-utilized Assets

The following observations are made.

(a) The recommendations made by the committee on 08 July 2013 appointed relating to the disposal of the noodle manufacturing machines operated in the noodles manufacturing factory of the Institute, had stated that 02 boilers in the noodle factory that require higher maintenance costs , a drier and a generator be disposed appropriately. However, even after 02 years, the recommendations of the committee had not been executed by 30 July 2015.

(b) Even though 06 motor vehicles valued at Rs.931,453 belonging to the Institute had been lying idle over periods ranging from 04 to 12 years, action had not been taken for the disposal of those motor vehicles.

4.4 Uneconomic Transactions

A sum of Rs. 44,530 had been incurred on taxies for short-distance travels during the year under review despite the 08 pool vehicles in running condition existed in the Institute.

4.5 Weaknesses in Contract Administration

The following observations are made in connection with the purchase of equipment worth Rs. 61,686,875 for the laboratory of the Institute during the year under review.

(a) In accordance with guideline 4.4.2 (b) of the Procurement Guidelines , bids presented by the bidders for each equipment should be evaluated. However, when purchases were made under 2 categories namely Lot No. 01 and Lot No. 2 relating to 14 types of equipments and services, the bidders who had not presented bids for all of the equipment under each lot , had been rejected without any justification.

(b) Although 346 technical specifications stated in the tender documents should have been evaluated in the tender process for purchasing 10 machinery, only 60 had been evaluated. Despite the lowest bidder had fulfilled the technical specifications that had been evaluated, tender had been awarded to an other bidder by unfairly excluding the said specifications. Hence, a loss of Rs. 16,607,116 had incurred.

4.6 Personnel Administration

Two employees had been recruited on casual basis for the posts of Roneo machine operator and personal assistant that had not been approved posts in the cadre of the Institute, and a sum of Rs. 364,036 had been paid as salaries and allowances in the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In accordance with Section 03 of the Public Finance Circular, No. PF/PE 21 dated 24 May 2002, financial statements should be presented to the Auditor General within 60 days after the close of the financial year. However, the Institute had presented the financial statements for the year under review on 02 July 2015.

5.2 Procurement Plan

Purchases valued at Rs. 540,830 had been made outside the Procurement Plan prepared for the year under review.

5.3 Budgetary Control

The following observations are made.

Variances ranging from 42 per cent to 187 per cent were observed between the budget and the actual expenditure of the year under review, and as such the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls 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) Collection of Revenue
(b) Budgetary Control
(c) Personnel Management
(d) Implementation of Research and Development Projects
(e) Control of Vehicles