

Institute of Post-Harvest Technology - 2017

The Audit of financial statements of the Institute of Post-Harvest Technology for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in equity and statement of cash flows 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman on 16 October 2018.

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 judgments, 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. Subsections (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 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 2017 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

a) **Sri Lanka Public Sector Accounting Standard No. 02**

- (i) The cash proceeds of Rs. 6,057,930 from selling vehicles during the year under review had not been included under the Investment Activities of the Statement of Cash Flows according to the Paragraph 25(b) of the Standard.
- (ii) Although it had been recorded a sum of Rs.26,753,844 of cash outflow for purchasing of non-current assets under the Investment Activities of the Statement of Cash Flows, it had been included a sum of Rs.9,803,454 which the payment did not made by cash.

b) **Sri Lanka Public Sector Accounting Standard No. 07**

Cost of Rs.63,410,396 assets were been continued to use even though the assets were fully depreciated due to not reviewing the useful life time for the non-current assets annually according to the Paragraph 65 of the Standard. Therefore, the above estimated error had not been corrected according to the Sri Lanka Public Sector Accounting Standard No. 03.

c) Sri Lanka Public Sector Accounting Standard No. 09

Although the Inventories should be accounted to the lower of the cost or the net realizable value according to the Paragraph 15 of the Standard, It has been accounted 03 inventory balances amounting to Rs. 64,973 as inventory at the year-end since they do not have a physical substance and a realizable value being outdated over 3 years.

2.2.2. Accounting Deficiencies

The following observations are made.

- a) Deficit of the year and the accrued expenses as at 31 December 2017 had been understated due to not recording as accrued expenses for the bills of repairing 02 vehicles during the year under review amounting to Rs. 259,000 which had not been paid.
- b) A sum of Rs. 364,095 worth interest income for the year under review relevant to the 03 fixed deposits had not been accounted.
- c) It had not been recognized and adjustments had not been made accurately in the ledger accounts for the direct remittances of Rs. 686,153 received to a current account of the Institute.
- d) It had been made Rs. 6,331,500 of over provision for gratuity due to computation of the gratuity provision as at 31 December for the year under review based on Rs. 670,030 as the gross salary for an employee although the gross salary is Rs.67,030.
- e) The Inventory value of 119 chemical inventory items had not been accounted as closing stock as at 31 December for the year under review.

2.3. Accounts Receivable and Payable

The following observations are made.

- a) Actions had not been taken during the year under review to recover aggregated sum of Rs. 572,222 receivable balances relating to 04 accounts over 05 years period according to the financial statements.
- b) Actions had not been taken during the year under review to recover aggregated sum of Rs. 321,174 relating to 04 advance accounts over 02 years period according to the financial statements.
- c) Rs. 268,724 of unpaid salaries had been recorded under Current Liabilities as at the end of the year under review without settling since the year 2004.

- d) Actions had not been taken to settle even though as at 30 August 2018 it had been recorded as a Liability in the Statement of Financial Position from the year 2009 without settling the contribution money of Rs. 4,318,284 charged from the beneficiaries to the Agricultural Ministry for selling of Rice Steaming Aluminum Equipment on concessionary rates to the beneficiaries of the development projects.

2.4. Unexplained Differences

A difference of Rs. 533,678 was observed between ledger accounts and the financial statements as at 31 December of the year under review in Accrued Expenditure was being Rs. 6,458,146 and Rs. 5,924,468 respectively.

2.5. Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation No. 570 and No. 571	Actions had not been taken according to the Financial Regulations relating to the tender deposits of Rs. 134,500 which were prevailing from 2009 to 2015 period of time.
(ii) Financial Regulation No. 756	The annual board of survey reports had not been submitted relating to 6 types of inventories amounting to Rs. 1,002,498.
b) Paragraph No. 10 of Public Finance Circular No. 02/2015 dated 10 July 2015.	Actions had not been taken to credit the cash proceeds of Rs. 6,057,930 to the Consolidated Fund as at the end of the year under review from disposing of destroyed vehicles in 2016 and 2017.

2.6. Transactions not confirmed by Sufficient Authority

It has been recorded as unsettled advances as at 31 December of the year under review without taking actions to settle the expense of Rs. 107,828 incurred without a proper approval for settling accommodation bills from the advances of Rs. 217,000 taken by 10 officers during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2017 had resulted in a deficit of Rs. 8,193,072 as compared with the corresponding deficit of Rs. 9,506,446 for the preceding year, thus observed a growth of Rs. 1,313,374 in financial results in the year under review. Increase in self-earned income by Rs. 5,011,467 had been caused for the above growth mainly.

A growth had been demonstrated in contribution of the year under review and 04 preceding years after adjusting employee emoluments and depreciation on non-current assets. The contribution of the year under review and the preceding year had been Rs. 97,592,080 and Rs. 81,224,945 respectively.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

The following observations are made.

- a) Though the final reports should be submitted on 31 December 2017, the final reports had not been submitted until 30 August 2018 for the Research of “Estimation of Heavy Metal Contamination in Some Popular Vegetables Grown in Different Districts of Sri Lanka” commenced in the year 2015.
- b) Though it had been planned to complete on March 2018, the final reports had not been prepared and submitted until 30 June 2018 for the Research of “Studies of Wine Production from Locally Available Groups” commenced in the year 2016.

4.2 Management Activities

The following observations are made.

- a) Ministry of Agriculture had not taken actions until 30 June 2018 relating to the recommendations and the responsible officers for the investigations although 05 enormous projects implemented by the Institute of Post-Harvest technology during the last 04 preceding years had been focused to investigations of the external organizations due to not following the procurement procedure and failure to implement transparently.

- b) Equipment worth of Rs. 16,076,078 had been purchased in the year under review and the preceding year for the money received under the capital grant of the Ministry of Agriculture distributed on free of charge by engaging with agreement to retain the ownership to the institute despite of distributing with 50 percent contribution from the beneficiaries.

4.3 Operational Activities

The following observations are made.

- a) Actions had not been taken to convert into the licensed official software which is being used by the Institute as a trial version software over 05 months although it had been purchased during the year under review for the Accounting purpose of the Institute.
- b) The reports had been retained without submitting the results to the Ministry of agriculture and other organizations recognized by testing 500 of samples incurring a cost of Rs. 1,956,120 during the year under review for the project implemented to estimate whether it include 04 heavy metal contaminations in 07 food items under the National Food Production Programme by the allocations of the Ministry of Agriculture. But, it had been reimbursed Rs. 5,350,000 from the Ministry for the expenses of the project.
- c) Although 06 cabs and 01 jeep received from the Ministry of Agriculture to the Institute for the requirement of vehicles of the Institute had been sent to the private sector garage for repairing despite the procurement procedure of the year under review and without approval of the Board of the Directors, those vehicles had not been used for the requirements of the institute and repaired until 30 May 2018.
- d) Research Releasing Committee had not been congregated at least one time for the year under review which functioned in order to provide recommendations need for reviewing researches and releasing the technology after completing researches conducted by the Institute.

4.4 Idle and Under-utilized Assets

The equipment named Gas Chromatography Mass Spectrometry System (GCMS) worth of Rs. 15.2 million had been idled over 03 years period as at 31 December 2017 without using for the research activities after establishing in the December of the year 2014 whereas an expense of Rs. 536,255 had been incurred by the Institute for servicing this equipment during the above period.

4.5 Un-economical Transactions

Late charges of Rs. 45,532 had been paid by the Fund of the Institute when settling of water and electricity bills due to not paying of bills to the due dates.

4.6 Staff Administration

Efficiency bar examinations had not been conducted according to the paragraph 15.I(II) in the Chapter II of the Establishment Code of the Democratic Socialist Republic of Sri Lanka and approved recruitment procedure for any employee category in the institute of Post-Harvest Technology from the beginning to the end of the year under review even if the efficiency bar examinations should be completed before arriving to the 4th step of the salary in deciding the salary scale of an officer.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Institute of Post-Harvest Technology had been informed about the way of functioning related to the duties laid down to their scope for the year under review whereas all public sector institutes should be performed according to the “Agenda” 2030 Sustainable Development year of United Nations. But, it was not observed that the specific organizations had been identified by indicating the Sustainable Development Aims and Goals and a participative access is illustrated with those organizations though rice processors, agrarian organizations and non-governmental organizations are recognized commonly as the beneficiaries.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

The following observations are made.

- a) Institute had been paid Rs. 63,673 exceeding the contract price since the contract had been awarded to the lowest price bidder considering only the unit price ignoring the transportation expenses in evaluating bids for designing and supplying of packaging boxes to the Mango Supply Value-chain Management Activities Development Project.

- b) Though a condition of designing and supplying of 4000 packaging boxes by a week for the Papaya Supply Value-chain Management Activities Development Project had been included in calling bids, Institute had been rejected the first qualified lowest price bidder with 4 weeks' time to supply and awarded to the next lowest price bidder. Institute had been made a loss of Rs. 801,760 due to rejecting the first qualified lowest price bidder and the next lowest price bidder has been taken 2 months' time to supply
- c) Though it should be considered in deciding the procurement limit for the lease amount of entire lease term when obtaining buildings on rent or lease according to the paragraph 2.14.1 of the Procurement Guideline, Minor Department Tender Board had been decided to obtain a building on rent for Rs. 8.5 Million for the period of 1 year and 6 months violating the procurement decision of the Board of Directors conducted to obtain a building on rent for the Colombo office it should be concentrated to the Cabinet Procurement Committee in determining the procurement limit for the lease amount of Rs. 28.5 million for 5 years' period.

6.2 Unresolved Audit Paragraphs

According to the Committee of Public Enterprises held on 19 August 2010, the Research Advisory Committee which established in the Institute in order to confirm that the researches are performed up to the relative quality and professional standards by the Institute had to congregate at least 04 times a year to evaluate the research proposals and the progress of the researches. But, the Research Advisory Committee had not been congregated at least one time for the year under review.

7. Systems and Controls

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

Areas of Systems and Controls	Observations
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a) Research Control	(i) Activities had not been done in terms of Research Guideline on researches performed by the Institute (ii) Instructions had not been taken from the Research Advisory Board.
b) Staff Administration	(i) The staff of the Institute had not been attended to regular training programs. (ii) Actions had not been taken to conduct Efficiency bar examinations.

- c) Laboratory Control
 - (i) The laboratory of the Institute had not been standardized.
 - (ii) The laboratory equipment had not been utilized effectively
 - (iii) A stock count had not been performed for the laboratory inventories

- d) Hostel Control
 - Hostel income had not been recovered by using a regular internal control system