

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Post-Harvest Management for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effect of the matters described in Paragraph 1.5 of this report the accompanying financial statements give a true and fair view of the financial position of the National Institute of Post-Harvest Management as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Scope of Audit (Responsibility of Auditor in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern..
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) Since the recurrent expenditure of Rs.278,475 incurred during the year under review had been capitalized, the deficit and fixed assets of the year had been understated and overstated by that amount respectively	This accounting error is a documentation error that occurred when reporting transactions. Relevant officers have been instructed to take necessary steps to prevent such documentation errors in the future.	Capital expenditure and recurrent expenditure account should be correctly identified and brought to account.
(b) A number of 6,656 plastic crates valued at Rs.9,517,264 had not	It is kindly informed that the value of the plastic crates that remained undistributed in the	Closing stock should be correctly identified and brought to account.

been accounted for as closing stock as at 31 December 2020. Institute as at last day of the financial year will be presented as a current asset and the grant received from the Ministry in respect of the remaining stock will be stated under the current liabilities as a deferred income in preparing the financial statements for the coming year

- (c) When comparing the revenue in the Statement of Financial Performance with the relevant schedules, there was a difference of Rs.771,238 relating to two revenue items. It is stated that due to errors in entering details in the revenue records maintained by each division, those records are not correct. Accordingly, the relevant officers were informed to correct the records. The relevant officers were instructed to take necessary action to prevent such errors in the future. The value as per the financial statements should be tallied with the value in the corresponding schedules.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
(a) No action had been taken to recover the special advances and distress loans amounting to Rs. 479,348 that remained receivable from 8 officers for more than a period of one year.	It is kindly informed that necessary steps will be taken to recover these outstanding balances.	Action should be taken to recover the loans.
(b) Action had not been taken even during the year under review to recover 06 receivable balances amounting to Rs. 1,082,708 that continued to exist over the period from 2003 to 2018.	The amount due from the Mahaweli Authority has been identified as an irrecoverable balance. Accordingly, having obtained the approval of the Board of Directors, it has been submitted to the Ministry of Agriculture for approval to write off from the accounts. As it is not possible to recover other receivable balances, those	Action should be taken to recover the receivable balances.

have not been recovered. It is kindly informed that necessary action will be taken to remove these balances as well in the future.

1.6.2 Payables

Audit Observation	Comment of the Management	Recommendation
No action had been taken even during the year under review to settle 06 payable balances totalling Rs. 926,551 that had continued to exist over the period from 2007 to 2018.	It has been identified that the balances recorded as accounts payable are no longer required to be kept as liabilities. Accordingly, approval of the Board of Directors have already been obtained to credit it to the general income. It is kindly informed that action will be taken in accordance there with.	Action should be taken to settle the payable balances.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Management	Recommendation
(a)Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(I.)Financial Regulation 103(1) and 104	Action in terms of Financial Regulations had not been taken on two motor vehicles involved in accidents on two occasions during the year under review.	A committee has been appointed in terms of Financial Regulations 103(1) and 104 to take steps with respect to the vehicle accident and further action is being taken accordingly.	Action should be taken according to the Financial Regulations
(II.)Financial Regulation 571	Action in terms of Financial Regulations had not been taken on 04 lapsed deposits totalling Rs. 544,109.	It is informed that there are no lapsed deposits totalling Rs. 544,109.00 in the Institute as mentioned by the Audit. There is an amount totalling Rs. 634,187.03 including contract	Action should be taken according to the Financial Regulations

retention money and tender deposits and a part thereof has already been settled during this year. The remaining balances are due to be settled and those had not been elapsed.

(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Section 13.2 of Chapter II

It had been revealed in the year 2019 that a Management Assistant working in the Accounts Division of the Institute had swindled Rs. 787,932 by changing documents and the relevant preliminary investigation report had not been submitted to the Institute even by December 31 of the year under review.

It has been stated that the preliminary investigation on the financial fraud has been completed and the final report is being prepared for the time being.

Action should be taken according to the provisions in the Financial Regulations

2. Financial Review

2.1 Financial Results

Operating results of the year under review was a deficit of Rs. 4,719,340 as compared with the corresponding deficit of the preceding year amounting to Rs. 19,153,413. Accordingly, an improvement of Rs. 14,434,073 in the financial results was observed. The decrease of supply and consumption expenditure and the other expenditure by Rs. 16,813,823 in the year under review than that of the preceding year had mainly attributed this improvement.

2.2 Ratio Analysis

The current assets ratio in the preceding year was 1: 1.22 and it was 1:1.4 during the year under review.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) One of the main objectives of the Institute was to minimize the post-harvest loss of agricultural crops and a preliminary survey conducted thereon in 2009 had identified that the post-harvest loss of perishable crops was between 30 per cent and 40 per cent. Ten years had elapsed since the conduct of that survey as at the end of the year under review, whereas the Institute lacked a database that would identify the percentage of post-harvest losses that had been minimized by 2020.	Arrangements have been made to implement the researches in this regard in 2021 and a survey will be conducted on ten economically favourable agricultural crops. The fruits such as banana, papaya, mango, guava and the vegetables such as capsicum, eggplant, tomato, bitter gourd and cabbage are some of the crops thus selected.	A database that is capable of identifying the amount of post-harvest losses that had been minimized should be maintained.
(b) Although Rs. 9,572,715 had been spent on patenting and commercially promotion of the research findings of the Induction of Fruit Ripening Organic Method research implemented from the year 2016 to August 2019, this project was not operational by 31 December 2020.	This money had been spent on the research project on induction of fruit ripening by organic methods to purchase equipment needed for a few essential laboratory analyses related to the fruit ripening process. One of the objectives of the research was to socialize the results for commercial use after analysing the results. It was revealed as per the findings of the research that the organic method used (ripening fruit using plant leaves) did not produce the ethylene gas that stimulates ripening and that the plant leaves stimulates the process of naturally producing ethylene from the fruit. This was a new finding and 03 research publications have been made in this connection.	In planning projects, those should be implemented so as to achieve the expected objectives.
(c) Although one of the main objectives of the Research Division of the National Institute	The manufacture of new machines has been carried out through research and the functionality of	In planning projects, those should be implemented so as to

of Post-Harvest Management was to manufacture and socialize innovative machinery after a research process, out of 19 innovative machinery manufactured from 2000 to the year under review, 18 had not been socialized.

those machines has been analysed by research. In socializing manufacturing machines, they have to be specifically functional and it takes some time to bring the machines to that level. Accordingly, necessary measure is being taken by the Engineering Services Division with regard to the machinery to be thus improved.

achieve the expected objectives.

- (d) Even though provisions of Rs. 770,000 had been made for the NVQ Level 3 and 4 Certificate Course Development Project on the Operation of Post-harvest Machine inaugurated in 2018 by the Engineering Division, a sum of Rs. 178,062 had been spent alone on course syllabus preparation and organizing activities. Plans had been drawn to start the courses before the end of 2018 Under the above projects, but that objective had not been achieved even by the end of the year under review.

The objective of this project was to develop a formal training course for machine operators in rice mills. Accordingly, the course was prepared in collaboration with the National Apprenticeship and Industrial Training Authority.

In planning projects, those should be implemented so as to achieve the expected objectives.

It takes about two years to prepare these courses and make the relevant corrections and to get approval for them and we are unable to develop the educational levels of such a course. The National Apprenticeship and Industrial Training Authority and the relevant Ministry has the power to prepare and approve such courses.

In order to obtain approval for the implementation of the relevant courses, our Institute has to be developed as a technical education institute and our Institute lacks the required academic staff to cover all the sections of this course and therefore, necessary resources for that purpose should be developed. It is expected to get approval to recruit this staff in the future and it will be implemented once the relevant approval is received.

- (e) According to the project proposal submitted in 2016 for completion within 06 months to obtain the certification of

The matter pointed out by the audit query is not deemed as a weakness. As it is mentioned here, the provisions had been made not for

In planning projects, those should be implemented so as to achieve the expected

accreditation, although new equipment was purchased and laboratory repairs were carried out at a cost of Rs. 47,101,187, it had not been possible to obtain accreditation certificates even by the end of the year under review.

the accreditation process but for the procurement of laboratory equipment and facilities required for research, training activities and other services carried out by the Institute.

objectives.

Obtaining Accreditation is a very long process and requires to meet many requirements for that purpose. This process was started in 2016 for several analyses carried out in the laboratory under the guidance of Prof. Upali Samarajeewa. Although the professor submitted a report and a six-month action plan for the project, we were unable to proceed with the process as our Institute lacked the necessary resources or human resources to carry out the process during that time.

According to a Memorandum of Understanding reached between Sri Lanka and Germany, the PTB Institute of the Republic of Germany (Physikalisch-Technische Bundesanstalt-the national metrology institute of the Federal Republic of Germany, with scientific and technical service tasks) is providing the necessary consulting services and training programs, material assistance, etc. according to an action plan to achieve Accreditation in order to make this process a success. Accordingly, it is expected to obtain Accreditation for several analyses by the end of the year 2021.

3.2 Operating Inefficiencies

Audit Observation

With the use of provisions of the Ministry of Agriculture, 500 samples tests had been carried out at a cost of Rs 1,956,120 in the year 2017 for the project implemented to ascertain whether the 04 types of heavy metals were contained in 07 food items import under the National Food Production Programme. According to the relevant project report, it had been ascertained that certain foodstuffs had contained heavy metals such as Cadmium, Arsenic and Lead exceeding the maximum safety level. However, as per the conclusions and proposals of that report, the Institute had not conducted further examination on the food items containing heavy-metals and provided information to all responsible parties in order to take necessary measures. As a result, the cost incurred for the research had become a futile expense.

Comment of the Management

Although plans were drawn to analyse 1000 samples in two years during the designing of this project, as the Ministry of Agriculture did not provide funds for the second year, the final report was submitted to the Ministry after analysing 500 samples.

As the National Institute of Postharvest Management has no authority on the foodstuff or to control the import of food items into our country, based on the results of our project “Awareness creation for Public Health Inspectors on using improved postharvest technologies for food safety” implemented in 2018, an awareness program was successfully conducted on Public Health Inspectors (PHIs) covering the entire island on how such results affect food security.

At the research conference held by the University of Jaffna on 19 and 20 December 2019, officers of our institute also released a research paper on this matter.

Recommendation

As it has been confirmed that there were food consisted of heavy metals as per the conclusions and the suggestions of the report, all responsible parties should be directed to take appropriate action.

3.3 Idle or Underutilized Properly, Plant and Equipment

Audit Observation

The Gas Chromatograph Mass Spectrometer which had been purchased at a cost of Rs. 15,216,575 in the year 2015 and operates under fully air condition atmosphere while incurring an annual maintenance cost of Rs. 275,000 remained idle without

Comment of the Management

The weakness so highlighted is accepted. However, since such equipment should be properly maintained, periodic servicing is done in accordance with the annual service agreement. Due to the delay occurred last year in the purchase of

Recommendation

Action should be taken to ensure the maximum use of relevant assets.

being used for any purpose even by the end of the year under review

chemicals required for the analysis of this equipment, the research work that was to be done was delayed. This machine is currently being used for research activities.

3.4 Procurement Management

Audit Observation

In terms of Guideline 3.8 of the Government Procurement Guidelines, 2006, national competitive bidding method should be used for the procurements that exceed three million rupees. Nevertheless, the shopping method had been used for the purchase of Freezer dryer worth Rs. 3,956,916 and Texture Analyser worth Rs. 3,800,000.

Comment of the Management

Due to the increase in the prices of imported goods owing to the Covid pandemic which occurred after the preparation of the estimates related to the above procurement, bids have been called for only from three qualified suppliers who have been identified as having the capacity to supply such technical equipment. As the value on that bid was increased, approval was obtained from the Departmental Procurement Committee.

ii As researches were required to be done without delay, the device was purchased at the only bid made in the face of the Covid pandemic.

iii It is acknowledged that the matters pointed out by the audit is correct and it is kindly informed that in the future procurement process, steps will be taken in accordance with the Procurement Guidelines to enter into agreements with suppliers for purchases of items exceeding Rs.500,000 in value.

Recommendation

Provisions in the Procurement Manual 2006 should be followed.

3.5 Human Resource Management

Audit Observation

Action had not been taken to fill the 41 vacancies in the approved staff including the Director who was the Chief Executive Officer of the Institute and to confirm 14 employees who had been recruited on casual basis.

Comment of the Management

Not commented.

Recommendation

Action should be taken to fill vacancies and confirm the employees recruited on casual basis.