

National Institute of Post-Harvest Management - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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 presented in 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 2021, and its financial performance and 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 determines 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 Institute 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 Sub-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 of the Institute.

1.4 Auditor's Responsibility for the Audit of the 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 Institute 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

The Institute is 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
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In terms of paragraph 117 (d) of Sri Lanka Public Sector Accounting Standard 20, an intangible asset should be disclosed in the statement of financial position as a separate item without disclosing under property, plant and equipment. However, the value of computer software amounting to Rs.1,325,836 had been disclosed under property, plant and	It is informed that action will be taken in terms of Sri Lanka Public Sector Accounting Standard 20 to disclose separately as an intangible asset in the statements of accounts.	Intangible assets should be brought to account in terms of Sri Lanka Public Sector Accounting Standards.

equipment in the statement of financial position.

1.5.3 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
(a) The value of 06 sundry stock items costing Rs.2,210,815 remained as at 31 December 2021 in stores and stock items costing Rs.884,883 belonging to 03 sections, had not been adjusted in the financial statements. As such, the deficit of the year under review had been overstated by Rs.3,095,698 while the current assets had been understated by the same amount in the financial statements.	As the stock items pointed out by the Audit had not been accounted in the year under review, it is stated that those had been identified and brought to account.	Action should be taken to identify current assets relating to the accounting period and to make adjustments in the financial statements accordingly.
(b) According to preceding years, expenditure totalling Rs.2,733,795 relating to ensuing years, had been adjusted to the operating income of the year under review, thus overstating the deficit of the year under review by Rs.3,894,996 in the financial statements.	According to Accounting Policies practiced by the Institute so far, accounting of the Institute is accurate and action will be taken to check on the agreed payment and to make relevant rectifications.	Accurate values should be brought to account relating to the period so as to accurately indicate financial statement reconciliations relating to transactions and incidents.

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

----- Reference to Laws, Rules, Regulations etc. -----	----- Non-compliance -----	----- Comments of the Management -----	----- Recommendation -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	(I) F.R.371 (2)(a) Advances	Advances totalling Advances obtained	Action should be

	Rs.194,720 granted in 12 instances in the year 2021 had been resettled in cash without incurring expenditure/incurring expenditure less than 50 percent due to taking action without specifically identifying the purpose. Moreover, the relevant amount had been paid to the office with a considerable delay.	for various research and development activities could not be fully spent due to practical situations arisen during the recent past. However, relevant officers have been instructed to minimize the effects of the said situation.	taken in terms of Financial Regulations.
(II) F.R.880(1) and F.R.881	In terms of the Securities Ordinance, action had not been taken to obtain securities from any officer required to give security.	Necessary action will be taken in terms of this circular.	Action should be taken in terms of Financial Regulations.
(b) Public Administration Circular No.05/2008 of 06 February 2008	Even though the Citizens' / Clients' Charter should be introduced by all Government institutions, the Institute had not prepared the Citizens' / Clients' Charter even by 28 January 2022, the date of audit.	As pointed out by the Audit, it is informed that a Citizens' Charter will be prepared so as to reflect how to provide services supplied by the Institute to clients.	Action should be taken in terms of provisions of Public Administration circulars.
(c) Paragraph 4.2.6 of the Procurement Manual issued relating to Good Governance of Public Enterprises in Circular No.PED/12 of 02 June 2003 of the Department of Public Enterprises	The matters in audit reports issued by the National Audit Office should be discussed and reviewed at the meeting of the Board of Directors and action taken thereon. However, action had not been taken to review matters in audit reports and to provide solutions therefor at 14 meetings of the Board of Directors held from January 2019 to December 2021.	Audit Queries issued by the National Audit Office are submitted to the Board of Directors and necessary decisions are taken by the Board of Directors after discussions.	Action should be taken to maintain minutes of meetings in writing so as to confirm matters discussed, decisions reached and progress of measures taken thereon at the meetings of the Board of Directors relating to audit observations.

- (d) Public Finance Circular No.03/2015 of 14 July 2015
- Ad hoc sub-impressts should be granted only to Staff Officers. However, ad hoc sub-impressts had been granted in the year under review to 08 officers under the service categories of Secondary and Primary Levels.
- Impressts are granted to other officers as well under the supervision of Staff Officers and on approval of the Director.
- Action should be taken in terms of provisions in Public Finance Circulars.

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a deficit of Rs.2,251,969 as compared with the corresponding deficit of Rs.4,719,340 in the preceding year, thus observing an improvement of Rs.2,467,371 in the financial result. The increase in recurrent receipts by Rs.10,488,378 from the Treasury and the decrease in other expenditure and project expenditure by Rs.1,888,951 and Rs.19,297,457 respectively had been the main reasons for this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The trends in the major income and expenditure items of the year under review as compared with the preceding year were as follows.

Source	2020	2021	Difference	Percentage
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	Rs.	Rs.	Rs.	%
Transfers from other projects	64,663,687	44,696,747	(19,966,940)	(31)
Consumer goods and supplies	9,676,817	14,425,984	4,749,167	49
Project expenditure	64,663,687	45,366,230	(19,297,457)	(30)

2.2 Analysis of Ratios

The current assets ratio of the preceding year was 1:1.4 and it had increased as 1:1.7 in the year under review. The quick assets ratio had decreased from 1:1.26 to 1:1.01.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Carrying out research and socializing the results thereof is one of the main functions of the Institute. However, matters such as non-presentation of final reports of 16 researches carried out during the period from the year 2015 to the year 2020 to a reputed magazine or a symposium, non-presentation of final reports of 05 researches of which the research period has ended even by the date of this report, failure in taking adequate measures to socialize results of 04 research projects which have been commenced in the year 2015 and completed by now, were observed in Audit.</p>	<p>It is mentioned that it is expected to present final reports of 16 researches to a reputed magazine or symposium, to present final reports of 05 researches and to socialize results of 04 research projects.</p>	<p>Necessary action should be taken to present final reports of researches to a reputed magazine or symposium, to present final reports periodically after completion of research and to socialize results of research projects.</p>
<p>(b) One of the main objectives of the Research Division of the National Institute of Post-Harvest Management is to manufacture and socialize innovative machinery after every research process, However, it was observed at the audit examination that according to the register on manufactured machinery and equipment maintained in the machinery workshop during a period of 21 years from the year 2000 to the year 2021, only 02 out of 19 innovative machinery launched, had been socialized.</p>	<p>As many of these machines have lapsed for a 10 year period after introduction, difficulties have arisen in socializing them.</p>	<p>Action should be taken to manufacture machines after identifying the requirement and to improve performance of the Institute by socializing them efficiently.</p>

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Even though a sum of Rs. 9,572,715 had been spent on patenting and commercially promotion of the research findings of the Induction of Fruit Ripening by Organic Method research implemented from the year 2016 to August 2019, this project was not operational even by 28 January 2022.	Three researches have been published in this regard. However, as the Chief Investigator of the research has left the service, the research could not be completed within the relevant time frame. The equipment thereof is still being used for development activities. As feasibility of commercial level was low, patents could not be obtained.	Action should be taken to achieve expected objectives effectively in planning and implementing projects and as researches have been abandoned by researchers halfway, an internal control system should be established to surcharge expenditure on responsible parties relating to idle researches.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) The Gas Chromatograph Mass Spectrometer (GCMS) machine which had been purchased at a cost of Rs. 15,216,575 in the year 2015 for laboratory researches and operates under fully air condition atmosphere while incurring an annual maintenance cost of Rs. 275,000 remained idle without being used even up to the end of April 2022. As an excessive cost has to be incurred for proper maintenance of this machine, the attention of the top management had not been drawn towards the ability of providing it to a Government	The machine has been used several times from the year 2015 and necessary arrangements have been made to use it for research purposes of the Institute.	The management should pay attention to make continuous use of the machine or to vest it in a Government institution for which it can be used.

institution which can make use of it.

- (b) 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 imported under the National Food Production Programme. According to the relevant project report, it had been ascertained that certain food stuffs 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 fruitless expenditure.
- All reports of the heavy metal analysis have been submitted to the Ministry of Agriculture. The report cannot be provided to other parties without permission of the Ministry of Agriculture.
- According to conclusions and proposals of the report, it has been confirmed that food items with heavy metal are available. As such, it should be referred to all responsible parties or institutions to take proper measures thereon.
- (c) One hundred GPS Trackers units and 130 Tempered Data Loggers had been purchased by spending sums of Rs.1,290,000 and
- Temperature Loggers were purchased in the year 2018 to study the manner of temperature variation within the supply chain of vegetables and fruits and
- Projects should be planned and implemented so as to achieve expected objectives.

Rs.4,680,000 on 05 April 2018 and 22 March 2018 respectively for the Supply and Value Chain Management Project of Agricultural Crops in Sri Lanka which was planned to be implemented during the period from the year 2017 to the year 2019. Seventy two GPS Trackers units and 09 Tempered Data Loggers out of them had remained in stores even by 28 January 2022 without being made use of. The sum of Rs.7,292,332 spent for the said project had become a fruitless expenditure as the relevant equipment were not utilized effectively.

necessary provision was not received for implementation thereof in the year 2019. As such, all relevant equipment could not be used as expected. Moreover, all those equipment are expected to be used.

3.4 Procurement Management

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>A number of 22,350 large plastic baskets and 10,990 jumbo baskets had been purchased at a cost of Rs.53,357,400 in the year under review from 02 supplying institutions. Nevertheless, these purchase had been continuously made due to the failure of the Technical Evaluation Committee in proper evaluation and recommendation of a qualified bidder to the Procurement Committee. As</p>	<p>Even the Technical Evaluation Committee has observed certain deficiencies relating to specifications at the submission of quotations of both these suppliers. Once goods are received to the Institute, the Technical Evaluation Committee observes the received goods with the specifications and certifies as in previous years. If certification of specifications referred herein is required, they should be sent to a laboratory with</p>	<p>Action should be taken to follow the procurement process to gain benefits to the Institute through competitive market, to accurately evaluate technical specifications expected by the Institute and to make payments after certifying specifications on receipt of goods.</p>

equal purchases had been analytical facilities.
made from both institutions
that had submitted
quotations, the Institute had
been deprived of the
opportunity of gaining
benefits from the competitive
market.