

Institute of Post-Harvest Technology - 2012

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1:2:1 Best Accounting Practices

Eight items of fixed assets costing Rs.51,420,673 fully depreciated but used during the year under review had not been revalued and such value shown in the financial statements.

1:2:2 Accounting Policies

Even though the normal accounting policy of the Institute is for accounting on the basis of accrual policy, income from training courses, hostel charges and consultancy services had been brought to account on the cash basis.

1:2:3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Auditorium income amounting to Rs.23,000 and hostel income amounting to Rs.5,450 receivable in respect of the year under review had been omitted in the accounts.

- (b) The sum of Rs.207,200 paid in the year under review on the agreement for the repair of laboratory equipment in respect of the year 2013 had not been shown as prepayments. As such the prepayments had been understated and the annual expenditure had been overstated by that amount.
- (c) Sums totaling Rs.24,230 receivable in respect of the year under review in connection with the supply of consultancy services for the rice flour noodles factory proposed for construction by the Local Foods Promotion Board and for a Rice Processing Centre of a private company had been omitted in the financial statements and as such the Consultancy Services Income Account and the Debtors Account had been understated by that amount.
- (d) Equipment valued at Rs.137,290 purchased for research projects had not been capitalized and shown under fixed assets and due to non-capitalization of those assets the annual depreciation and the deficit for the year under review had been understated by a sum of Rs.13,729.
- (e) According to the Bank Statements the Bank Debit Tax and Bank charges totalled Rs.35,787 while that had been shown as Rs.32,307 in the financial statements. As such that account and the deficit for the year had been understated by an amount of Rs.3,480.
- (f) The rates paid on the land of the Institute for the years 2006 to 2011 amounting to Rs.161,007 had been brought to account as expenditure for the year instead of being adjusted to the Accumulated Fund.
- (g) A sum of Rs.116,990 paid for the construction of a grill fence on the front boundary wall had been brought to account under the recurrent expenditure as maintenance expenditure on buildings and lands instead of being brought to account under fixed assets.
- (h) Action had not been taken to identify and settle 19 deposits totalling Rs.462,377 credited to the Bank Account of the Institute as direct remittances from September to December of the year under review.

1:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) Even though the travelling advances amounting to Rs.211,479 paid to the officers in service at present had not been settled over a period exceeding 02 years, action had not been taken even during the year under review to recover the money from the officers concerned.
- (b) All 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 the year 2006. Action had not been taken even up to 24 June 2013 either for the settlement or write off from books 12 balances of accounts receivable amounting to Rs.2,513,330 and 11 balances of accounts payable amounting to Rs.1,138,123 remaining over a long period.
- (c) Effective courses of action had not been taken for the recovery of 11 balances of accounts receivable amounting to Rs.490,893 and for the settlement of 21 balances of accounts payable amounting to Rs.488,890 created after 30 June 2000 and remaining over periods exceeding 02 years up to 10 years and shown in the financial statements for the year under review.
- (d) Action had not been taken for obtaining reimbursements promptly of the expenditure incurred on the development projects implemented during the year under review and as such a sum of Rs.61,123 remained receivable as at the end of the year under review from the Ministry of Agriculture.

1:2:5 Lack of Evidence for Audit

The evidence indicated against the following items of account shown in the financial statements had not been furnished to audit.

Items -----	Value -----	Evidence not furnished -----
	Rs.	
(a) Fixed Assets	89,795,633	Register of Fixed Assets
(b) Debtors Control Account	1,367,330	(i) Register of Debtors

		(ii) Confirmation of Debtors Balances
(c) Other Creditors	328,295	(i) Register of Creditors
		(ii) Confirmation of Creditors Balances
(d) Printing Expenses of Publications	177,250	(i) Schedules on the Issue of Publications
		(ii) Schedule of Closing Stock
(d) Library Books	295,361	Register of Accession
(e) Current Liabilities		

Advances	520,086	} Detailed Schedules
Bid Deposits, Head		
Office Retentions	279,854	

1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulation 104	A loss of Rs.183,255 had been incurred due to accidents caused in two instances to 02 motor vehicles of the Institute. Action in terms of the Financial Regulation had not been taken in that connection.

(b) Public Administration Circulars

Public Administration Circulars
No. 26/92 of 19 August 1992 and
No. 26/92(1) of 03 August 1994
and No. 2002/01 of 25 February
2002

The State Emblem or the name of the Institute had not been painted on 07 pool motor vehicles of the Institute in running condition.

(c) Treasury Circulars

Treasury Circular No.
1A/2002/02 of 28 November
2002

Even though a Register of Fixed Assets on Computer Accessories and Software should be maintained, a Register of Fixed Assets had not been maintained for computers and accessories costing Rs.5,689,901.

1:2:7 Transactions not supported by Adequate Authority

The following observations are made.

- (a) In terms of the Public Administration Circular No. 13/2008(ii) of 09 February 2011, the official requirements of officers entitled to official motor vehicles should be managed within the number of litres of fuel allowed per month. When additional provision for fuel is needed the approval for that should be obtained from the Secretary to the Ministry. Even though the Chairman, Deputy Chairman and the Director of the Institute had obtained fuel valued at Rs.106,751, Rs.10,406 and Rs.45,156 respectively in excess of the limits, the approval for that had not been obtained from the Secretary to the Ministry.
- (b) The sum of Rs.400,000 paid as an advance to the Sri Lanka Institute of Development Administration for the preparation of the Administration and Financial Regulations of the Institute including the Corporate Plan had been brought to account as an expenditure for the year without the approval of the Board of Directors despite the assignment remaining without being executed.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Institute during the year ended 31 December 2012 had resulted a deficit of Rs.4,893,838 as compared with the corresponding deficit of Rs.7,480,881 for the preceding year, thus indicating an improvement of Rs.2,587,043 in the financial results.

2:2 Analytical Financial Review

The surplus after meeting the expenditure for the year from the sum of Rs.52,782,809 received from the General Treasury for the recurrent expenditure of the year under review and the self-generated income of Rs.20,917,075 was amounted to Rs.7,258,200. The corresponding surplus after meeting the expenditure from the sum of Rs.63,340,951 received from the General Treasury and the self-generated income of Rs. Rs.18,588,181 in the preceding year was amounted to Rs.5,716,309. The adjustment of a sum of Rs.12,023,745 comprising the provision for depreciation on fixed assets amounting to Rs.8,939,932 and the provision for employees gratuity amounting to Rs.3,083,813 written off against the income for the year under review had been the reason for the deficit for the year under review.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) A stock of 5,181 packing materials of 04 categories valued at Rs.2,056,023 purchased over 06 years ago under the Programme for Popularizing the Use of Plastic Packing Materials for minimizing the damage caused to vegetables and fruit during transport remained without being distributed even up to the end of August 2013.
- (b) Seven mobile trade stalls purchased for Rs.437,500 for distribution among the beneficiaries under the development projects of the year 2012 at 50 per cent

beneficiary contribution remained in the stores without being distributed even by 24 June 2013, the date of audit.

- (c) A sum of Rs.12,695,600 being received from the sale of plastic packing materials purchased from the provisions received from the Ministry under the Programme for Popularizing the Use of Plastic Packing Materials for Minimizing the Damage caused to Vegetables and Fruit during transport had been retained idle in the stores of the Institute without being utilized for popularizing the programme.
- (d) The beneficiary contribution amounting to Rs.2,442,895 recovered from the Project for the Supply of Equipment on 50 per cent beneficiary contribution under the “ApiWawamu Rata Nagamu” national movement had been retained by the Institute without being utilized for that programme or for the commencement of a new project.

3:1:1 Research Performance

The following observations are made.

- (a) The evidence in support of the proper direction of the technical evaluation of research proposals, granting approval for implementation, analysis of quarterly progress, progress review and the evaluation of final reports by the Sri Lanka Council for Agricultural Research Policy had not been furnished to audit.
- (b) Even though the major objectives of the Institute included the use of modern technology, the popularizing of improved technology among the targeted groups, and the introduction of efficient goods transport systems and the introduction of packaging technology, effective courses of action had not been taken for the extension of the machinery and products manufactured at a cost of Rs.658,890 from researches during the years 2011 and 2012 in the relevant sectors.
- (c) Action had not been taken to record the machinery manufactured by the Institute at heavy costs from researches conducted over number of years in the stock books of the Institute and secure the rights of invention by obtaining patent rights and to ensure the viability of the machinery. Action had not been taken for the introduction of machinery or the technology produced through research to the market. Twenty one machines produced by the Institute since the year 2002 had been piled up in the Institute without identifying their costs.

- (d) A Research Symposium had been held in the year 2012 with the objective of launching the technologies developed by the Institute through the researches conducted in the years 2009/2010. Even though 23 researches had been launched through the above symposium, no adequate steps had been taken even up to 21 June 2013 for the introduction of those researches to the Sector. Adequate courses of action had also not been taken for the achievement of one of the objectives of the Institute of popularizing improved technology among targeted groups.

3:2 Management Inefficiencies

Adequate courses of action had not been taken for the recovery of money for the 50 plastic crates valued at Rs.15,000 provided to the Ministry of Agriculture for the transport of seedlings for the Farmers' Week Exhibition 2010 held at the Bataatha Agri Technology Park or for the recovery of the plastic crates.

3:3 Irregular Transactions

The Kubota hand tractor appearing in the registers relating to the transfer of the assets of the Paddy Marketing Board as at 30 June 2000 to the Institute of Post-Harvest Technology and shown in the financial statements at a cost of Rs.11,450 was not physically available with the Institute.

3:4 Idle and Underutilised Assets

Even though 06 motor vehicles valued at Rs.942,907 belonging to the Institute had been lying idle over periods ranging from 03 to 10 years, action had not been taken for the disposal of those motor vehicles.

3:5 Uneconomic Transactions

The following observations are made.

- (a) The Institute had paid a sum of Rs.53,985 on 15 September 2012 as interest for the non-payment of the taxes payable on the land belonging to the Institute in respect of the years 2006 to 2012.

- (b) A sum of Rs.47,262 had been paid for insurance premiums and revenue licences in respect of the year under review for 04 unroadworthy motor vehicles of the Institute of Post-Harvest Technology, in disposable condition.

3:6 Resources of the Institute Supplied to other Government Institutions

Contrary to Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, three officers of the Institute of Post-Harvest Technology had been attached to the Minister's Office of the Ministry of Agriculture. The approval of the Cabinet of Ministers had not been obtained in this connection and the Institute had paid a sum of Rs.772,846 as the salaries and wages of the 03 officers for the year 2012.

3:7 Staff Administration

The staff as at 31 December 2012 had been as follows.

	Approved	Actual	Vacancies
	-----	-----	-----
Staff Grades	41	23	18
Non-staff Grades	51	24	27
Minor Grades	61	29	32
	-----	-----	-----
Total	153	76	77
	=====	=====	=====

Action had not been taken to fill the vacancies existing over a long period.

3:8 Motor Vehicles Utilization

A motor vehicle of the Institute had been attached to the Ministry of Agriculture on temporary basis with effect from 01 August 2011 and the Institute had repaired the motor vehicle at a cost of Rs.100,186 in the year 2012. It was observed that the motor vehicle had not been taken back by the Institute even by 21 June 2013, the date of audit.

3:9 Annual Board of Survey

Action in terms of Financial Regulation 772 had not been taken for the disposal of 332 items of goods comprising 41 items for repair. Twenty one items for sale and 270 items for disposal as identified by the Annual Board of Survey for the year 2012.

04. Accountability and Good Governance

4.1 Action Plan

Even though the Annual Action Plan had been presented, the physical targets had not been included in the Action Plan. As such it was not possible to examine whether the actual physical levels commensurate with the financial targets achieved had been reached. Similarly the Institute had not introduced a methodology for the timely examination of the targets achieved.

4:2 Internal Audit

Even though reports had been issued by implementing the internal audit covering different areas of the Institute, the Management had not taken adequate courses of action on those reports. As such it was observed that the Internal Audit had not been made use of as an effective instrument of control.

4:3 Budgetary Control

- (a) Variances ranging from 28 per cent to 267 per cent were observed between the budget and the actuals and as such the budget had not been made use of as an effective instrument of financial control.
- (b) Even though the approval of the Board of Directors should be obtained for the transfer of savings of provisions of a particular Object to another Object, expenditure relating to the year 2012 amounting to Rs.6,390,118 had been incurred by transferring the savings under Objects to 14 Objects without the proper approval.

4:4 Tabled of Annual Reports

The Annual Reports for the years 2008 and 2009 had been tabled in Parliament on 07 June 2012 and the Annual Report for the year 2010 had been submitted to Parliament on 26 February 2013 for tabling. Action had not been taken for tabling the annual report for the year 2011.

5. 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) Fixed Assets Control
- (b) Accounting
- (c) Staff Control
- (d) Budgetary Control
- (e) Implementation of Research Projects
- (f) Motor Vehicles Control