

Institute of Post-Harvest Technology - 2015

The audit of financial statements of the Institute of Post-Harvest Technology for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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. 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 2015 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 Accounting Deficiencies.

The following observations are made.

- (a) A stock valued at Rs.67,004 of which the physical existence was not verified, had been included in the financial statements.
- (b) The value of a stock of consumables valued at Rs.82,938 existed as at 31 December of the year under review, had been shown as an expenditure of the year under review in the financial statements.
- (c) In the computation of the net cash flow received from operations, in the Cash Flow Statement, adjustments totalling Rs.5,153,507 which do not affect the Cash Flow Statement had been included in the value amounting to Rs.16,381,888 shown as adjustments made for the accumulated profit.

2.2.2 Lack of Evidence for Audit

Journal entries relating to adjustments totalling Rs.115,656 of the year under review had not been made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover a total sum of Rs.80,295 receivable from 02 institutions over a period exceeding 05 years.
- (b) Action had not been taken to settle the unpaid salaries amounting to Rs.265,832 shown in the financial statements over a period exceeding 10 years.

2.4 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 Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 371(2) Advances totalling Rs.241,500 granted in 21 instances during the year under review had not been settled despite the delay of 01 month to 11 months after completion of the relevant purpose.
- (ii) Financial Regulations 507 and 756 Boards of Survey had not been carried out for the year under review relating to 13 out of 22 Divisions of the Institute.
- (iii) Financial Regulations 570 and 571 Action had not been taken to dispose of lapsed deposits totalling Rs.81,500 or credit to the revenue relating to the period from the year 2009 to the year 2013.
- (b) Guideline 5.4.12 of the Procurement Guidelines The relevant institutions had not been informed monthly of the details on Value Added Tax levied on contract payments.

2.5 Transactions not Supported by Adequate Authority

An incentive amounting to Rs.507,589 relating to the years 2014 and 2015 had been paid to the staff of the Institute during the year under review and the approval of the Treasury had not been obtained thereon in terms of paragraph 02 of the Management Services Circular No. 5/2014 of 21 November 2014.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2015 had resulted in a deficit of Rs.18,403,751 as compared with the corresponding deficit of Rs.17,488,936 for the preceding year, thus indicating an increase of Rs.914,815 in the deficit of the year under review as compared with the preceding year.. The increase in the provision for depreciation on fixed assets by a sum of Rs. 8,745,094 and salaries, wages and employees' benefits by a sum of Rs.14,235,258, exceeding the increase in the entire income by a sum of Rs.13,077,956 had been the main reasons for the increase in the deficit of the year under review.

In the analysis of financial results of the year under review and 04 preceding years, the deficit of the year 2011 had decreased in the year 2012. Nevertheless, it had gradually increased from the year 2013 to the year 2015. Taking into consideration the employees' remuneration and depreciation on non-current assets, the contribution of the year 2012 had increased as

compared with the year 2011, but it had decreased in the year 2013. The increase in the contribution of the year 2015 was 42 per cent as compared with the year 2014.

4. Operating Review

4.1 Performance

The objectives of the Institute are carry out researches on perishable as well as durable crops in Sri Lanka and necessary researches for the development of postharvest technology, minimization of post-harvest losses through introducing necessary modern technology for processing, packaging, transportation and storage of agricultural produces and thereby increase the income of farmers.

The following observations are made in respect of achievement of objectives mentioned above.

- (a) The survey on food patterns and food of the people living in areas affected with kidney disease, approved with a 02 year time frame from July 2013 to June 2015 had not been completed even by 21 March 2016 and progress reports on the progress of the research that should be presented once in 02 months had not been submitted after the month of August, 2014.
- (b) The Research on Development and Popularization of Rice based Extruded Products commenced in June 2013 and due to be completed in December 2014 had not been completed even by 24 May 2016 and progress reports that should be submitted once in 02 months as well had not been submitted.
- (c) Even though a deep freezer had been purchased at a cost of Rs.685,440 in the year 2014 for the preservation of fruits and vegetables under dehydration and deep freezing industry, according to the final result of the research, recommendations relevant to the preservation of vegetables and fruits under deep freezing condition had not been submitted.
- (d) The methodology of sharing results of the researches carried out from the funds of the Private Sector between the Institute of Post-Harvest Technology and the Private Sector and the manner in which action should be taken in breaching agreements by one party had not been included in the agreements entered into between two parties.
- (e) The Consulting Committee had approved the research on the Design and Development of an Automated Fruit Peeler to carry out from January 2015 to June 2016 and all plans relating to the manufacture of the machine had been completed. However, the research had been abandoned in February 2016 due to failure in providing necessary facilities for future research activities.
- (f) The laboratory had been modernized by purchasing equipment incurring an expenditure of Rs.61.6 million in the year 2014 and the recognition for researches could not be obtained due to failure in obtaining the Letter of Accreditation for carrying out researches according to the International Standards.

- (g) It was observed in the examination of the Action Plan of the year 2015 that out of 280 training programmes which should be completed by the Extension Division, 117 representing 42 per cent had not been completed.

4.2 Management Activities

The following observations are made.

- (a) Even though the Institute had obtained Patents for 05 new inventions as the results of the researches carried out since the year 2009, no necessary information whatsoever had been made available to audit to confirm the contribution made for the economy of the country through the agriculture and post-harvest field by those new inventions. As such, the results of the researches had been limited only for obtaining Patents.
- (b) The Extruder Oil Making Machine manufactured successfully as a result of a research carried out during the year under review had been taken over to another institution without proper approval. As such, the intended results could not be obtained from that machine.
- (c) Even though the approval of the Sri Lanka Council for Agricultural Research Policy for researches carried out by the Institute in terms of paragraph 2 of the Research Guidelines, that approval had not been received for 11 researches carried out in the year under review and the previous year.
- (d) A sum of Rs.84,600 recoverable from guests boarded at the hostel in 17 instances and boarding fees from 09 persons boarded in 09 instances during the year under review had not been recovered.
- (e) Sixteen ice-cream machines purchased in December 2014 but valued at Rs.3,360,000 as at 31 December of the year under review had not been given to the selected beneficiaries.

4.3 Transactions of Contentious Nature

A Cab motor vehicle belonging to the Institute had been released to the Coordinating Officer of the Minister of Agriculture with effect from 20 March 2015 at the request of that officer and a total sum of Rs.870,075 had been incurred as salaries and allowances and fuel and maintenance expenditure of drivers from the Fund of the Institute during the year under review. Further, running charts from 20 March to 01 August 2015 relating to that motor vehicle had not been signed by the Officer who travelled as the in charge of that motor vehicle and the running charts had not been maintained after 07 August 2015.

4.4 Idle and Under-utilized Assets

The following observations are made.

- (a) Out of equipment valued at Rs.44,041,725 purchased under modernization of the laboratory, utilization of equipment valued at Rs.27,311,650 had been at a minimum level from 02 to 08 hours during the year under review and 02 machines valued at Rs.16,730,075 had not been made use of for any purpose during the year under review.

- (b) Four Rice Flour Shifter Equipment valued at Rs.110,900 received from a foreign aid project in the year 2012 for the project on the Establishment of Rice Processing Families and Improvement of Rice Flour Mills had not been utilized even by August 2016.
- (c) Seven Mobile Trade Stalls valued at Rs.350,000 purchased in the year 2012 under the Project on introduction of Mobile Trade Stalls for sale of fresh vegetables and fruits had remained idle without being utilized.

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.

Areas of Systems and Controls	Observations
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(a) Research Control	Action had not been taken in terms of Research Guidelines for researches carried out by the Institute and failure to update the Research Giudelines.
(b) Staff Administration	Improper Human Resources Management through a proper assignment of work for the staff of the Institute.
(c) Assets Control	Non- utilization of physical resources of the Institute for achievement of objectives of the Institute.