

National Institute of Post Harvest Management - 2019

1.1 Opinion

The audit of the financial statements of the National Institute of Post Harvest Management for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 reported to Parliament appear in this report.

In my opinion, 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 2019, 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 Opinion

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 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 Financial Statement

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.

1.6 Non - compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka			
Section 13.2 of Part ii	In February 2019, it had been revealed that a Management Assistant serving in the Accounts Branch of the Institute had defrauded Rs.787,932 by	Verbal and written requests have been frequently made to the Preliminary Investigation Officer to complete this	Action should be taken in accordance with the provisions of the Establishments Code.

making changes in the investigation and submit documents and an the investigation report Investigation Officer had expeditiously. In been appointed at that time response to those to conduct preliminary request, the Investigation inquiry. As it had not been Officer informed that specified a specific period since there are a large to complete the said number of witnesses preliminary inquiry on that relating to this financial letter of appointment, the fraud and the task was preliminary inquiry report rather complicated, the had not been submitted to final report cannot be the Institute even up to 30 submitted on a fixed date and investigation will be September 2020. completed as expeditiously as possible.

- (b) Public Finance Circular No. 2015/ 01 dated 14 July 2015
- Although the advance should be paid within 10 days from the completion of the task, the advances obtained by 21 officers on 35 occasions had been settled after a delay ranging from 05 days to 135 days.
- The officers concerned have been instructed to settle advances immediately after the completion of the relevant work.
- Action should be taken in accordance with the circular provisions.
- (c) Paragraph II of the Management Services Circular No.03/2018 dated 18 July 2018.
- Without obtaining prior approval of the Department of Management Services, 11 employees had been recruited in September 2018 only up on the approval of the Board of Governance and a sum of Rs.1,459,978 had been paid as their salaries by 31 December 2019 from the funds of the Institute.
- According to a decision taken by the Board of Management in the year 2018, staff had been recruited in excess of the approved cadre. However, only three of the staff so recruited remains in excess of the approved cadre at present.
- Action should be taken in accordance with the circular provisions.

2. Financial Review

2.1 Financial Results

Operating results of the year under review was a deficit of Rs. 19,153,413 as compared with the corresponding deficit of the preceding year amounting to Rs. 15,238,872. Accordingly, a deterioration of Rs. 3,914,541 in the financial results was observed. Even though the revenue for the year under review had increased than that of the preceding year, the higher percentage of increase in the project expenditure during the year under review had mainly attributed this deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken to pay off or to take into the revenue in terms of Financial Regulations 11 balances totalling Rs.2,520,053 which had remained unsettled over a period ranging from the year 2011 to 2018.	It is kindly informed that the necessary actions will be taken to settle the balances pointed out by the audit.	These balances that remained unsettled over a long period should be settled and correct positions should be shown in the financial statements.
(b) Even though the laboratory had been modernized purchasing equipment incurring a sum of Rs. 61.6 million during the year 2015 for the modernization of Laboratory belonging to the Institute as an internationally recognized laboratory, due to the lack of internationally accredited certificates for that Laboratory, it had failed to gain recognition for researches carried out by this Institute.	<p>This is common and essential process in any laboratory. Accordingly, purchasing of the instruments was carried out in keeping with then existed requirements.</p> <p>However, the samples need to be tested from accreditation certified laboratories only for the export of food products from Sri Lanka to foreign countries.</p> <p>Necessary arrangements are being made to obtain accreditation and it is planned to be completed by the end of 2020.</p>	In accordance with the project report prepared for the purchase of equipment, actions should be taken to obtain International accreditation required for conducting research as per international laboratory standards

(c) The minimization of the loss of post-harvest in agricultural crops was a main objective of the Institute and as per a preliminary survey conducted in 2009 for that, the loss of post-harvest in agricultural crops were recognized remaining in between 30 per cent and 40 per cent. Even though about 10 years had elapsed from the conduct of the above survey by the end of the year under review, the Institute lacked a database to identify the extent to which post-harvest losses were minimized as a percentage at the moment.

Taking into consideration the importance of this process, the proposal relating to this study has been referred to the Ministry for the research projects proposed for the year 2021. Approval of the Advisory Committee of our Institute too has been received for that purpose. Accordingly, it will be possible to obtain correct data available on the post-harvest loss of the agricultural crops in Sri Lanka.

A data base should be maintained to enable to identify the extent to which the loss of post-harvest was mitigated.

(d) Even though as outcomes of researches carried out by the Institute since 2009, patents had been obtained for 08 inventions, due to the any required information were not provided to audit to ascertain the contribution made to the economy of the country through the field of agriculture and post-harvest from those findings, it was observed that the results of the researches were limited to obtain patents..

Out of these 08 patents;

1. The patent for rice related organic soup cube has been provided for a manufacturer with a charge of Rs.10,000.00.
2. Through the projects, the Institute has already introduced the technology of the production of rice related ice cream to the field.

In order to increase the Institution's contribution towards achieving the main objectives of Institute, proper attention should be drawn in respect of these matters .

A proposal has been made to conduct a special workshop with the participation of private entrepreneurs and it is expected to introduce the technology related to the patents and the other technologies of the Institute which have not been introduced to the field up to date.

- (e) The Gas Chromatograph Mass Spectrometer (CGMS) Machine which had been purchased for a Rs. 15,216,575 in the year 2015 and operates at full air condition atmosphere while incurring a maintenance cost of Rs. 275,000 per year had been remained in idle without being used for any purpose of the Institute up to date.
- Plans have been drawn to make use of the Gas Chromatograph Mass Spectrometer for research activities in this year. However, in order to maintain these types of valuable machine in a proper operative condition, servicing thereof should be duly carried out by entering into service agreements.
- The expected objectives in the purchase of this machine should be achieved.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though 3,007,000 stickers purchased in the year 2017 to affix on mangoes when supplying mango harvest to the market under the Mango Project had remained at the beginning of the year under review, a stock of 200,000 stickers had been again purchased on 31 March 2019. Accordingly, 3,105,000 stickers worth Rs.841,900 remained in the stores by the end of the year under review. Most of the above stickers seemed unusable.</p>	<p>The stock of 200,000 stickers was purchased in March 2019 in respect of newly commenced mango processing zone. As the stickers printed for another zone cannot be used for the newly commenced mango processing zones, above quantity of stickers was printed.</p>	<p>Purchases should be made by identification of the requirements through proper planning.</p>
<p>(b) For the Project titled Supply and Value Chain Management of Agricultural Crops in Sri Lanka implemented from the year 2017 to 2019, 100 GPS Trackers Units had been purchased on 05 April 2018 at a cost of Rs.1,290,000 and 130 temperature data loggers had been purchased for on 22 March 2018 at a cost of Rs. 4,680,000. Of which 98 GPS Trackers Units and 70 temperature data loggers</p>	<p>Plans were drawn in the year 2019 to continue the relevant project and although provisions were demanded from the Ministry of Agriculture to carry out further activities in the year 2019, relevant approval was not granted. However, plans are being made to introduce cold room methodology at State level in the future and therefore, these instruments can be used continuously. Further, it is kindly</p>	<p>Project should be planned and implemented so as to achieve the expected objectives.</p>

remained in the stores even by 25 January 2020 without being used. As the relevant equipment had not been effectively used, a sum of Rs.7,292,332 spent for the above project had become an uneconomic expenditure.

informed that the above devices are being used for the research projects presently in operation at the Institute.

(c) Even though a sum of Rs.9,572,715 had been incurred for obtaining patient and promotion of the findings on research called "Induction of Fruit Ripening by Organic Methods" at commercial level which had been implemented from the year 2016 to August 2019, this project remained dysfunctional by 30 August 2019.

The instruments stated herein have been purchased for analysing the result of this research and socializing the expected results thereof. It was recognized that feasibility of commercially utilising the technologies identified according to the research results was less. However, it was observed that the technology identified through this research could be used as a hygienic ripening method for organic farming.

Project should be planned and implemented so as to achieve the expected objectives.

(d) 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 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 exceeded the maximum safety standards, including heavy metals such as Cadmium, Arsenic and Lead. However, as per the conclusions and proposals of that report, the Institute had not conducted further examination on the food items contain

Subsequent to completion of the analysis of 500 samples of foodstuff selected in the year 2017, those reports and the final report have been handed over to the Ministry of Agriculture. Nevertheless, due to not receiving financial provisions for the year 2018, project activities were not implemented in that year. However, it has been stated even in the final report that these researches should be further continued in order to reach a conclusion.

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.

heavy-metals and provided information to all parties responsible for in order to take necessary measures. As a result, it was observed that the cost incurred for the Research was a futile expense.

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
Even though there were 41 posts of senior level including the Director, the Chief Executive Officer of the Institute in the approved cadre, the actual cadre of that category was 28. Accordingly, 13 posts of the senior level remained vacant.	Not commented.	Actions should be taken to fill the existing vacancies immediately.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although the Annual Financial Statements of Statutory Boards should be submitted to the Auditor General within 60 days from the end of the year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED / 12 dated 02 June 2003 and Treasury Circular No. 01/2004 dated 24 February 2004, the financial statements for the year 2019 were submitted to the Auditor General on 23 June 2019.	Not Commented.	Financial statements should be submitted to the Auditor General within 60 days from the end of the financial year.