

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 2022 comprising the statement of financial position as at 31 December 2022 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 Finance 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 effects 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 Institute as at 31 December 2022, 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 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 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 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 Responsibilities 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 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 the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, 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 of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations related to the preparation of financial statements

1.5.1 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) 36 items of computer accessories with an revaluation value of Rs.695,190 as on 31 December 2017 and purchased on 29 March 2018 and was Rs.189,600 had been fully depreciated on 31 December 2021. As these computers and devices are in further use, adjustments had not been made to the accounts for the year under review.	It is informed you that the computer devices will be revaluated and the accounting error will be corrected.	Computers and equipment should be revaluated and necessary adjustments should be done to the accounts.
(b) Arrears of Rs.684,019 salary and related payments of two officers had been included in the salary and remuneration expenses of the year under review. Among those salary and remuneration expenses, the expenditure related to the previous year is Rs.648,637. Due to accounting of this expenditure and the company contribution of Rs.77,836 to the Employees' Provident Fund and Rs.19,459 to the Employees' Trust Fund related to those salaries and remuneration as an expense of the year, the deficit of the year was overstated by Rs.745,632.	The salary and remuneration expense of the year under review will be adjusted to the accounts and corrected.	Financial statement references relating to transactions and events should be accounted for in relation to the period in which they are presented accurately.
(c) Surplus for the year and the closing stock had been overstated by Rs.182,434 in the financial statements due to the facts that two stock items valued at Rs.175,770 were not included in the closing stock and 12 chemical stock items with an expired cost value of Rs.358,204 were included in the closing stock.	Actions will be taken to adjust to the accounts and corrected.	Financial statement references relating to transactions and events should be accounted for in relation to the period in which they are presented accurately.

- (d) During the inspection conducted by the audit officers on 20 April 2023, the value of 42 items which was purchased in the previous years and date and value could not be identified had not been assessed and adjusted to the accounts. Actions will be taken to adjust to the accounts and corrected. Values should be assessed and adjustments should be made to the accounts.

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

Reference to Laws, Rules, Regulations etc.	Management Comment	Recommendation
(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka F.R.880 (1) and F.R.881	Although security is required to be posted according to the security Ordinance of the Government Officers which is the 612 th authority, entity had no taken actions to obtain security deposits from any officer who is required to post such security.	It is informed that arrangements will be made to post security in the future. Financial Regulations should be followed.
(b) Establishment code of the Democratic Socialist Republic of Sri Lanka Section 5.8 of Chapter XIX	Government quarters No.01 had been handed over for occupancy to the Chairman who assign the work of the institute since the year which is after renovation made in the year 2017 at a cost of Rs.4,337,274.	This quarters is not only a quarters reserved for the chairman but also given to VIPs according to their needs. Accordingly, It is informed that it is not possible to charge fees when VIPs arrive. It should be act as per the provisions of the Establishment Code.

2. Financial Review
Financial Results

The operating result of the year under review was a deficit of Rs.15,193,030 and correspondingly the deficit of the previous year was Rs.2,251,969. Accordingly, a decline of Rs.12,941,061 was observed in the financial result. This decline was mainly due to the decrease in transfer from other projects by Rs.26,312,248, the increase in supplies and consumables expenses by Rs.2,320,336 and the increase in salary and remuneration expenses by Rs.5,741,431.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Management Comment	Recommendation
(a) Although Rs.178,062 have been spent for the preparation of the syllabus of the course and works of organizing under the project of developing NVQ level 03 and 04 certificate courses related to the operation of post-harvest machines started in the year 2018 by the engineering department, such courses had not been conducted until the end of the year under review.	The lack of staff and physical resources required to cover all parts of this course in the institution has affected the inability to start those courses.	Only courses that suit the scope, objectives and capacity of the institution should be started.
(b) 100 GPS Trackers units spending Rs.1,290,000 on 05 April 2018 and 130 Tempered Data Loggers spending Rs.4,680,000 on 22 March 2018 had been purchased for the supply and value chain management project of agricultural crops in Sri Lanka which was planned to be implemented from 2017 to 2019. As of 24 February 2023, 72 GPS Trackers Unit and 09 Tempered Data Loggers remained unused in the warehouse. Due to the fact that the related equipment was not used effectively, the amount spent for the project has become an uneconomical expense.	All the relevant equipment could not be used as expected since the necessary provisions were not received to implement it in the year 2019. All those equipment are expected to be used in the near future.	Formal actions should be taken to review and resolve audit observations.

3.2 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Research project of "Design & Construction of A Tunnel Type	The belt conveyor and chemicals purchased for the	It should be act as fulfil the objectives

Forced–Air Cooler for Cooling of Fresh Mango" which started on 01 January 2018 spending Rs.543,338 and was planned to be completed by 31 December 2020 had not been in operational level as of 24 February 2023 i.e. the audited date.

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| (b) | Producing and socializing new products after a research process by operational research division is a major objective of National Institute of Post-Harvest Management. However, only one of the 19 types of new generators that have been released was socialized according to the list of manufactured machines and equipment maintained at the mechanical worksite during the 23 years from the year 2000 to the audited date of 20 March 2023. | Most of the machines are more than 10 years old and now there are more functional machines than these machines and therefore there is difficulty in socializing the machines. | Action should be taken to produce and socialize the machines after recognizing the social need. |
| (c) | Although after submitting the final reports of the research, the research should be published in a recognized journal or presented at a conference according to the research guidelines, 20 researches during the period from 2015 to 2022 had not been published in a recognized journal or presented at a conference. | Actions are in progress to research to be presented in a recognized journal or to a conference. | Research papers should be presented in a recognized journal or to a conference. |
| (d) | Although the final reports should be given within the prescribed time frame given for the research, the final reports for 05 researches for which the research time frame has ended had not been given even by the date of audit i.e. 24 February 2023 and the delay period was between 02 and 05 years. | 02 final reports were not submitted due to various reasons and 03 reports are being prepared to be submitted. | Arrangements should be made to provide the final research reports promptly. |
| (e) | Due to insufficient actions have been taken to disseminate the results of the 04 research projects with topical importance in socially that have been started after 2015 and have been completed by now through other | Action is being taken to socialize the research results. | Research results should be disseminated promptly. |

development projects or extension offices, the objectives expected from those research projects had not been fulfilled.

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| (f) | Although the main objective is to produce and socialize new creations after a research process through the research division, the patent license had been obtained only for 09 machines and equipment from the year 2000 to the date of audit. | Our company started the process of obtaining patents from the year 2012. The process of obtaining patents for the products is done after that time. | The process of obtaining patent should be expedited. |
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3.3 Operational inefficiencies

Audit Observation	Management Comment	Recommendation
One of the main objectives of the institute was to reduce the post-harvest damage of agricultural crops and according to a preliminary survey conducted in 2009 for that purpose, it had been identified that the post-harvest damage of non-perishable agricultural crops was between 30 per cent and 40 per cent. 12 years had passed since the survey was conducted by the end of the year under review and the institute did not have a database that could identify the percentage of post-harvest damage that had been reduced by the year 2022.	Various programs have been implemented over the past period to reduce the amount of post-harvest damage and improve the quality of agricultural crops in Sri Lanka.	Formal actions should be taken to review audit observations and resolve.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
(a) Due to the inactivity of 02 Atomic Absorption Spectrophotometer and Handel Wheel Vertical Autoclave machines with a total value of Rs.8,336,705 which was in the laboratory as of 31 December 2022, the research activities conducted using said machine had been stopped in the years 2018 and 2019 respectively. The institution did not have a planned program to repair and use these machines.	The prices were offered more than the value of the 02 machines, i.e. Rs.10.5 million for the repair of these 02 machines. Therefore, although financial allocations were requested from the Ministry of Agriculture, financial allocations were not provided.	A planned program should be developed to get the machine repaired and put into use.

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| (b) | Although the laboratory equipment needed by the laboratories for the testing activities carried out by the National Institute of Post-Harvest Technology Management has been purchased based on limited requirements, due to the reduced number of opportunities to use the equipment, 03 equipment with a total value of Rs.7,878,705 remained underutilized. It is observed that the decrease in the amount of research done may lead to a decrease in the cases of using the equipment. | It is informed that the AAS machine has been continuously used for analysis from 2015 to 2018. Nevertheless this machine could not be used in last year due to being inactive. Other equipment mentioned here has also been used for research work as per requirement. | A planned program should be implemented to ensure that laboratory equipment is not underutilized. |
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3.5 Human Resource Management

Audit Observation	Management Comment	Recommendation
(a) 27 approved posts are Management Assistants among the secondary level posts and actual cadre is 22. The assignment of duties had not been done in a manner that reached an optimal level by evaluating the overall performance to be performed by the institution while assigning the role to those officers. Service extensions are provided continuously and Rs.1,372,046 had been paid as salary on 31 December 2022 to two employees hired on contract basis for vacancies.	Service extensions are given on the basis of service requirement and as there are vacancies in 5 posts.	Audit observation should be reviewed and the organizations should assign roles to the officers in such a way that they reach the optimal level.
(b) While there were no vacancies of PL 1 category in the approved cadre of the institution and the approved number of 06 employees for the post of watchman could be fulfilled from PL 1 category employees, due to the watchmen employed at the main gate were employed for security duties at the gate of the hostel and for various duties in the office and the duties of watchmen at the main gate are provided from the Civil Securities of the Civil Security Department according to the approved cadre report, an amount of	Services of the Civil Securities were obtained by the Board Papers BP 975. Few watchmen have been deployed to security the hostel premises. If the security work is carried out by watchmen of the institution, permission should be obtained to hire two officers in addition to the existing officers.	Formal action should be taken to review audit observations and resolve.

Rs.13,569,700 had been paid to that department for the period from 2018 to 31 December 2022.

4. Accountability and Good Governance
4.1 Performance of Social Responsibilities

Audit Observation	Management Comment	Recommendation
<p>(a) 500 samples had been tested at a cost of Rs.1,956,120 in the year 2017 for the project implemented to check whether 04 types of heavy metals are contained in 07 types of food imported under the National Food Production Program using the provisions of the Ministry of Agriculture. According to the related project report, it had been confirmed that certain food items contain heavy metals such as Cadmium, Arsenic and Lead beyond the maximum safety level. Nevertheless, according to the conclusions and suggestions of the report, the institute did not conduct a further inspection of the food items containing heavy metals and provide information to all the responsible parties to take proper action in this regard and therefore the amount spent on the research has become an idle expense.</p>	<p>500 samples have been analysed and the final report has been submitted to the Ministry of Agriculture. The report is not permitted to be given to other parties without the permission of the Ministry of Agriculture.</p>	<p>Formal action should be taken to review audit observations and resolve.</p>
<p>(b) Although Rs.9,572,715 was spent for getting the patent rights for the findings of the Induction of Fruit Ripening By Organic method research that was implemented between the year 2016 and August 2019 and for popularizing the results of the research at a commercial level, the project was not at the operational level as on 24 February 2023 i.e. the date of audit.</p>	<p>It was observed that the technology identified in this research can be used as a hygienic ripening method for organic crops. Patents were not obtained due to lack of commercial viability.</p>	<p>Formal action should be taken to review audit observations and resolve.</p>