

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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 2023, 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 Non – compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Although paragraph 54 of Sri Lanka Public Sector Accounting Standards 07 states that an increase or decrease in the revaluation amount of one asset belonging to an asset class should be offset against the value of another asset of the same class, due to the revaluation surplus of equipment in the laboratory and research equipment class was shown as an increase in equity and the decrease in value was shown as a deficiency in the performance statement in the year under review, the deficiency for the year had been overstated by Rs.553,930 and the equity in the financial performance statement by the same amount.</p>	<p>The decrease in the deficiency due to the fact that last year's decrease in the revaluation value of laboratory and research equipment has been debited to the statement of performance, and the increment of revaluation reserve shown in the equity have been corrected using journal entries.</p>	<p>Paragraph 54 of Sri Lanka Public Sector Accounting Standard No. 07 should be followed.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Instead of debiting to the work in progress account the expenditure of Rs.2,690,000 incurred for the acquisition of a Grid Solar Power System purchased for the development project SSTC Pilot Project Phase-(iv) in the year 2023 and currently in progress, since showing it under a project development expense in the financial</p>	<p>It is kindly informed that it has been accounted as an asset of the company after the relevant connection is given by the Ceylon Electricity Board so that this solar panel system can be used in February 2024.</p>	<p>Expenditures incurred for development projects and if the project is not completed, such expenditure should be shown under non-current assets as work in progress.</p>

performance statement by considering it as an expense of the period and, the deficit of the year was overstated by Rs.2,690,000 and the work in progress under non-current assets in the statement of financial position was understated by the same amount.

- (b) Although Rs.3,113,795 deducted as gratuity expense for the period should be added as non-financial transactions to the net surplus/deficit of the period shown in the cash flow statement, Rs.956,630 has been added as gratuity provision increases under cash flows arising from financing activities without act accordingly.
- In calculating the cash flow incurred by the gratuity expense, its net effect is shown in the preparation of the cash flow statement. Action will be taken to prepare the cash flow statement of the next year as indicated by the audit.
- Gratuity expense should be included as a non-financial transaction in the statement of cash flows.

1.6 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As corresponding Record Rs.	Difference Rs.	Comments of the Accounting Officer	Recommendation
Internal courses, lecture halls, meals and accommodation charges	4,681,887	4,440,074	241,813	Instructions were given to the relevant officers to correct the document and to prevent this kind of error from happening in the future.	After verifying the correctness of the source documents, they should be copied to the accounts.

2. Financial Review Financial Results

The operating result of the year under review was a deficit of Rs.35,500,537, correspondingly the deficit of the previous year was Rs.15,193,030. Accordingly, a deterioration of Rs.20,307,507 was observed in the financial result. Although capital grants increased by Rs.10,234,226, amortization decreased by Rs.20,803,474, other expenses increased by Rs.5,120,243 and project development expenses increased by Rs.15,540,646 were mainly affected for this deterioration.

3. Operational Review
3.1 Uneconomic Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Rs.1,290,000 had been spent and purchased 100 GPS Trackers units on 05 April 2018 and Rs.4,680,000 had been spent and purchased 130 Tempered Data Loggers on 22 March 2018 for the project of Supply and Value Chain Management of agricultural crops in Sri Lanka which was planned to be implemented from 2017 to 2019. Since the government had incurred a loss due to non-utilization of the said equipment purchased after conducting a formal feasibility study, action had not been taken regarding the parties who recommended, approved and were responsible for the purchase of the said equipment. Also, although the attention of the Audit and Management Committee held in the ministry has been drawn, proper action had not been taken in this regard until 01 April 2024 and the total cost of Rs.7,292,832 spent for that project had become an uneconomical cost to the company.</p>	<p>The 100 Tempered Data Loggers and 100 GPS Trackers were purchased under the said project. Tempered Data Loggers were purchased to study temperature variation in fruit and vegetable supply chains during transportation and consumption across the country. GPS trackers were expected to study the movement of agricultural products in the fruit and vegetable supply chain. SIM cards (Data) are required to operate GPS Trackers, and since the purchase was not possible in 2018, although the necessary project proposals to implement the activities related to this project were submitted to the Ministry of Agriculture in the year 2019, the project could not be implemented using the equipment as expected due to the Covid 19 pandemic which continued with the non-availability of funds. A part of these was used for various functions of the institute and the rest of the equipment was given to other agricultural research institutes.</p> <p>In order to prevent such situations from occurring in the future, orders have been issued to the relevant officers to conduct a better feasibility study while preparing project proposals.</p>	<p>Audit observations should be reviewed and formal actions should be taken to resolve.</p>

3.2 Management Inefficiencies

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The Gas Chromatograph Mass Spectrometer (GCMS), which was purchased for laboratory research in 2015 at a cost of Rs.15,216,575 and maintained at an annual maintenance cost of Rs.275,000 to maintain in fully air-conditioned condition, remained idle except on a few occasions by the date of 20 March 2023 which was the date of audit. Although almost 09 years have been passed since the purchase of this machine, the top management has not paid attention to the possibility of giving the machine to a useful government institution.	The Gas Chromatography Mass Spectrometer mentioned here is currently being used for the research projects carried out in the institute. The machine is currently being used for sample analysis in research in 2023 and to be carried out 2024. A five-year action plan was prepared to prevent underutilization. According to that plan, 05 researches were conducted in the years 2022/2023/2024. Further, it is informed that this machine is also used for sample analysis.	Management should consider on continuing the use of the machine or transferring it to a beneficial government entity.
(b) A major objective of the National Post Harvest Management Institute is to produce and publish new products after a research process. Nevertheless, during the audit inspection conducted, only one type of machine out of the 19 types of new generators machines that have been unveiled according to the register of manufactured machines and equipment maintained at the plant had been published during the period of 24 years from the year 2000 to 31 December 2023.	Since the price of the raw materials used in the production of local machines is high compared to other countries, it is difficult to publish these machines as the substitute machines imported from overseas are sold at a very low price compared to the locally produced machines. Also, many of these machines are more than 10 years old since they were introduced through research, and since more functional machines with higher technology have emerged than these machines, it has become difficult to publish these machines.	The social need should be recognized and the machines should be produced and the performance of the organization should be increased by publishing them efficiently.
(c) Although the main objective of the research division is to produce and publish new creations after a research process, patents had been obtained only for 09 machines and equipment during the period of 2000 to 2023.	The 09 patents have been obtained between 2000 and 2021, and not all of them are machines and equipment, and value added products and production methods are among them. End of the results of all the research are not	The program of publishing the research results and the process of obtaining patents should be expedited.

the obtaining patents, and some of those results are given to the field as per the requirements by the training and extension division of the institute.

(d) The National Postharvest Management Institute had submitted and approved the project proposal of Rs.27.81 million to the Ministry of Agriculture on 07 March 2023 for the research of the establishment of a fruit processing center to empower stakeholders in the fruit value chain. The following facts were observed in this regard.

(i) Although there were 14 research officers in the institute, a feasibility study was not conducted by the said officers before approving the project and the project proposal had been approved by stating that a feasibility study was unnecessary under the primary activities in paragraph 5 and Rs.1.0712 million and Rs.970,000 as the fee for obtaining consultancy services had been paid to the Bureau of Industrial Services.

Due to the fact that the institute does not have experts related to sociology and economics to carry out this work, it was decided to carry out this feasibility study by an external party.

Formal action should be taken to review and resolve audit observations.

(ii) At the time of approving the project proposal, it was indicated that land acquisition was unnecessary by the paragraph 4 of the project proposal form. However after 05 months of approving the proposal on 07 March 2023, an agreement had been reached with the Hambantota Pradeshiya Sabha on 16 August 2023 and agreements were obtained to acquire the new warehouse at the Mayurapura Fair premises belonging to the Pradeshiya Sabha and the land measuring 32.1 x 18.2 meters for use without approving the provision and, Rs.20 million out of the total provision of the project for the repair

During the preparation of this project proposal, a building belonging to the Mahaweli Authority was identified as the suitable building to establish the fruit pulp processing center and an estimate was made. However, due to the problematic situation that arose in acquiring the building, repairs were made to an unused building of the Hambantota Pradeshiya Sabha and related works were done for the estimate made by adding necessary elements. The Board of Directors was informed and an agreement was made with the

Audit observations should be reviewed and formal action should be taken to settlement.

of the said building had been allocated without an approved engineering estimate. Pradeshiya Sabha to use the building and the surrounding area.

3.3 Operational Review

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) 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, it had been identified that the post-harvest damage of non-perishable agricultural crops was between 30 percent and 40 percent. Although 14 years had passed by the end of the year under review since the survey was conducted, and the institute had not have a database that could be identify the extent of post-harvest damage in terms the percentage which the National Postharvest Management Institute identified by the methods taken to reduce post-harvest damage by 31 December 2023.	An island-wide study on the current situation of post-harvest damage in agricultural crops was conducted by the National Post-harvest Management Institute during 2021-2023. the data on the amount in decrease of the post-harvest damage in those crops in the past few years by the actions taken to reduce the post-harvest damage were obtained. A final report on this has been submitted to the institute and a summary report has been submitted to the Ministry of Agriculture. Further the current situation of post-harvest damage has also been informed through printed media.	Formal actions should be taken to review and resolve audit observations.
(b) Although the role of the research officer is to carry out research activities and implement training, project and development programs to provide the identified new technologies to the field, the final reports of 03 researches implemented from year 2019 with the total value of Rs.495,450 and two researches started in year 2021 with the total value of Rs.1,726,870 had not been presented until 31 July 2023.	Instructions have been given to the relevant officers to avoid such problems in the future.	Actions should be taken to obtain research reports.

3.4 Idle of Underutilized Property Plant and Equipment

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Due to the malfunctioning of 02 Atomic Absorption Spectrophotometer and Handel Wheel Vertical Autoclave machines with a total value of Rs.8,336,705 was in the laboratory by the 31 December 2022, the research activities using that machine had been suspended in the years 2018 and 2019 respectively. The institute had not implemented a planned program to repair and use these machines from the year 2020.</p>	<p>The Ministry of Agriculture has been informed in this regard as it is impractical to repair the machine at the high prices offered for repair at the time of failure of these two equipments. However, based on the current situation in the country, quotation have been called for repairs. If the prices are found to be reasonable/ practical, they will be submitted for the approval of the Ministry of Agriculture for repairs.</p>	<p>Arrangements should be made for the machine to be repaired and put into use.</p>

3.5 Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>While all the six approved security officer positions for the security service were not vacant according to the approved cadre report, three of the 06 officers holding the security officer positions were assigned for the security of the hostel and remaining three were assigned the tasks related to office assistant positions and paid an amount of Rs.13,569,700 to the Civil Defense Department for obtaining the service of the security officers of that department for the period from February 2018 to 31 December 2023. Accordingly, it was observed that the management is responsible for making the inefficient payments due to not performing a work study of the role to be performed by the primary level officers and not performing the said roles by the</p>	<p>Director Paper BP 975 decided to take over the security service from the Civil Defense Department. If it is decided to cease the service of the Civil Defense Department according to the audit, at least 02 new security officers should be appointed in addition to the existing officers. There is no possibility to hire at this time to appoint such. Therefore changing the security division again will become problematic. It would like to point out that the 06 officers who are employed for this security service are PL1 service category and they also hold the same position as office assistant and maintenance assistant, and therefore they have been assigned duties related to those positions based on the need</p>	<p>Audit observations should be reviewed and formal action should be taken for settlement.</p>

actual employees or by the relevant officers according to the approved staff report.

4. Accountability and Good Governance
4.1 Performance of Social Responsibilities

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although Rs.9,572,715 had been spent to get the patent right for the findings of the Induction Of Fruit Ripening By Organic method research that was implemented from 2016 to August 2019 and to publish the results of the research at a commercial level, the project had not been at operational level as on 31 December 2023 i.e. the date of audit.	This amount has been spent for the research project called Induction of fruit ripening by organic methods to purchase the necessary equipment for several essential laboratory analysis activities related to the fruit ripening process and 03 research publications have been made in related with this. Furthermore, it is recognized that the feasibility of commercial use of the identified technologies is low. Patents were not obtained due to lack of commercial feasibility. An amount of eighty two lakh rupees has been spent to purchase the necessary equipment such as a GC machine, a generator, a Refrigerated Centrifuge, and these equipments are already in use.	Formal actions should be taken to review and resolve audit observations.
(b) The 500 samples had been tested at a cost of Rs.1,956,120 in the year 2017 for the project which was 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 in 2017. According to the related project report, it was confirmed that certain food items contain heavy metals such as Cadmium, Arsenic and Leaf beyond the maximum safety level.	Since the final report was planned to be released after testing 1000 samples as per the initial plan of the project, 500 samples were analyzed in the first year. Nevertheless, since fund was not received to analyze the next 500 samples, the report of the 500 samples analysed has been handed over to the Ministry of Agriculture for further work. A research paper related to this research has been published in 2019.	Formal actions should be taken to review and resolve audit observations.

Nevertheless, according to the conclusions and suggestions of the report, the institute had not conducted a further inspection of the food items containing heavy metals, and information had not been provided to all the parties who responsible in this regard to take proper action. Although the National Audit Office has drawn the attention of the Audit and Management Committee held in the Ministry in the year 2023 in this regard, the amount spent for research was becoming an idle expense.