

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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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

| Non-compliance with reference to the relevant Standard | Comments of the Management | Recommendation |
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| (a) Although the error of accounting for the solar panel installation cost of Rs.2,690,000 as project development expenses in the previous year, which should have been accounted for as work in progress was corrected in the year under review, it had not been revised the financial statements and made retrospective adjustments in accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standard 03. | That the financial statements will be revised and corrected retrospectively in the future. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards. |
| (b) The financial statements had not been revised and made retrospective adjustments in accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standard 03, when correcting the error of overstating the previous year's deficit by that amount due to the revaluation deficit of Rs.553,930 not being offset by the revaluation surplus. | That the financial statements will be revised and corrected retrospectively in the future. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards. |
| (c) The value of the 19 acres of land used by the institution, the 14 equipment items valued at Rs.767,835 owned by the Hambantota Fruit Pulp Production Center, 43 models of machines and tools used as exhibits in training programs and 17 air conditioners owned by the Engineering Division which should be recognized as Property, Plant and Equipment in accordance with paragraph 13 of Sri Lanka Public Sector | The ownership of the land has not been acquired in the name of the institution, and since the valuation department has not provided an assessed value, it has not been recorded in the accounts. That the necessary actions will be taken to examine the items not accounted as fixed assets from the equipment owned by | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards. |

Accounting Standards 07 had not been assessed and accounted for as property, plant and equipment in the financial statements.

the Hambantota Fruit Pulp Centre and include them in the fixed assets register.

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| (d) | Although the institution has revalued office equipment, furniture and other equipment during the year under review, Other relevant matters such as whether an independent assessor was used, the methods used and significant assumptions, as required by paragraph 90 of Sri Lanka Public Sector Accounting Standard 07, were not disclosed in the notes to the financial statements. | An independent assessor was not used in the revaluation of the assets and a valuation committee consisting of the company's mechanical engineers and technical officers conducted the revaluation. A note regarding the valuation and accounting is provided under accounting policies in the financial statements. That the standard will be followed in asset revaluation activities in future. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards. |
| (e) | The provision for gratuity of Rs.48,968,074 had not been calculated using the actuarial valuation method in accordance with paragraph 77 of Sri Lanka Public Sector Accounting Standard 19 and the required disclosures in accordance with Section 141 had not been made in the financial statements. However, it had been falsely stated in Note 3.4 to the financial statements that the employee benefit obligation had been recorded at present value. | That the method mentioned in Section 77 of Accounting Standard No.19 has not been used as it is quite complex and, that the attention will be paid to this method and its practicality and action will be taken to follow it in the future. | Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards. |

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

| Reference to the laws, rules and regulations etc. | Comments of the Management | Recommendation |
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| (a) Section 11 of the Finance Act No.38 of 1971 | Although the institution had maintained 02 fixed deposits totalling Rs.20 million and 02 savings deposits totalling Rs.16.04 million, the consent of the Minister of Finance and the approval of the relevant Minister in charge of the subject had not been obtained | This Rs.20 million is a balance remaining from the Rs.300 million provided at the beginning of the institution. The two savings accounts, since the institution cannot invest money |
| | | Action should also be taken to obtain formal approval for investment activities in accordance with the provisions of the Finance Act, and if investments |

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| | | for this as per the Act and, action had not been taken even to deposit this excess money in the Treasury. Also, due to keeping Rs.16.04 million in a general savings account instead of investing it in fixed deposits, the institution had lost an interest income of Rs.841,990 during the year under review. | as per Section 11 of the Finance Act, they were maintained in savings accounts and further action will be taken in accordance with the instructions given by the Treasury regarding those accounts. | are made under formal approval, Investment should be made economically and appropriately. |
| (b) | Sections 6, 93(1), 126(1), 145 of Chapter (ii) of Part One of the Inland Revenue Act, No.24 of 2017 and Section 38 of the Inland Revenue (Amendment) Act, No.10 of 2021 | The institution had not taken actions to submit income tax returns and pay taxes from the date of its establishment until the year under review and, institution had not taken actions to obtain a certificate from the Inland Revenue Department stating that it was exempt from income tax. | Our institution is an institution that receives money from the Consolidated Fund and has not paid income tax in accordance with the Inland Revenue Act since its establishment and, that this matter will be discussed with the management of the institution and consult with the Treasury and the Inland Revenue Department. | It should be complied with the provisions of the Inland Revenue Act and pay taxes or obtains a tax relief certificate. |
| (c) | Financial Regulations of Democratic Sri Lanka | | | |
| (i) | Financial Regulation 138 (7), Financial Regulation 139 (7) and Financial Regulation 200 (4) | The final payment for a building renovation contract was falsely recorded in the expenditure ledger as Rs.489,181 without proceeding properly in accordance with financial regulations and a cheque worth Rs.2,254,954 had been written and an amount of Rs.1,765,773 had been overpaid. Although the overpaid amount had been allowed to be misused for 20 days and recovered, action had not been taken to conduct an investigation into this | The mistake that has been made is accepted and instructions have been given to the relevant officers to ensure that such mistakes do not happen again. | A formal investigation should be conducted and action should be taken against the relevant parties. |

irregularity and identify the responsible party and take disciplinary action.

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| (ii) Financial Regulation 770 and Financial Regulation 771 | Although any item in custody cannot be written off from the books without a board of survey report, the institution had written off equipment worth Rs.40.59 million from the books during the year under review without proper approval. | All equipment obtained through the projects has been formally provided to the beneficiaries and has been formally handed over to universities and other government institutions that conduct research using the equipment with the approval of the Board of Directors. | Financial Regulations should be followed and documents confirming that the correct beneficiaries have been identified and the documents confirming that the relevant equipment has been formally contracted and accepted should be submitted for audit. |
| (d) Paragraph 2.1 of the Guidelines for Valuation of Non-Financial Assets in the Asset Management Circular No.04/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media | It is essential to assess all government-owned lands, and although priority should be given to assessing government lands where government offices, circuit bungalows, workplaces, etc. are located, the approximately 19 acres of land within the Anuradhapura city limits occupied by the institution had not been assessed accordingly. | Since this land which is occupied by the institution has not yet been transferred although the request has been made to be transferred to the institution, it has not been assessed and accounted. | The assessment should be carried out immediately in accordance with the provisions of the Circular. |
| (e) Paragraphs 2.1, 2.2 and 2.4 of Public Finance Circular No.08/2019 dated 17 December 2019 | Although registration with e-Government Procurement was required before 31 January 2020 and the annual procurement plan was required to be uploaded to the system before 31 December of each year as per paragraph 2.4, this had not been done. | Although it has not yet been registered with e-Government Procurement in accordance with Public Finance Circular No.8/2019 that it will do accordingly in the future. | Action should be taken against the officers who have not acted in accordance with the Circular and to act in accordance with the Circular for the coming year. |

(f) Operational Manual for State owned Enterprise Governance in Public Enterprise Circular No.1/2021 dated 16 November 2021

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| (i) Paragraph 6.6 | A draft annual report had not been submitted to the Auditor General along with the financial statements for the year under review. | The draft is currently being prepared and will be made available soon in the future. | A program should be implemented to ensure compliance with the provisions of the Circular in the coming year. |
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| (ii) Paragraph 6.9 | Although prior recommendation of the Audit and Management Committee should be obtained before writing off losses or receivables, irrecoverable balances of Rs.194,173 had been written off from the books without such approval. | These balances are inactive account balances that have been in place for a very long time and the Accounting Officer for these balances has been removed with the approval of the Chairman and the approval of the 171 st Board of Directors has been obtained. | Formal action should be taken against officials who acted contrary to the provisions. |
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(g) The Guidelines on corporate Governance for state owned Enterprises in Public Enterprises Circular No.1/2021 dated 16 November 2021

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| (i) Paragraph 2.6 | A qualified company secretary, chartered accountant, lawyer or a similarly professionally qualified independent officer should be appointed as the secretary of the board of directors and although the Chief Executive Officer or any officer involved in other activities of the institution should not be | This matter has been referred to the Board of Directors and will be dealt with in the future. | Action should be taken to comply with the provisions of the circular and formal action should be taken against those who have acted contrary to it. |
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appointed as the Secretary to the Board of Directors, the institution had appointed its Chief Executive Officer (Director) as the Secretary to the Board of Directors.

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| (ii) Paragraph 3.2 | Although the Annual Performance Review Meeting (APRM) should be held before 05 months from the end of the financial year and before the annual report is presented to Parliament, the institution had not done accordingly in relation to the year 2023. | That these meetings will be held from the 2023 annual report onwards. | Action should be taken in accordance with the provisions of the circular, and formal action should be taken for failure to do accordingly. |
| (iii) Paragraph 1 and 4 (a) of Annexure IV | One of the objectives of the Audit Committee is to support to fulfil the Board of Directors' responsibility to prepare and present the annual financial statements in accordance with Public Sector Accounting Standards and relevant financial reporting requirements and although the financial statements should be reviewed by the Audit Committee accordingly, the institution had not submitted the financial statements to the Audit Committee for review. | That the financial statements will be submitted to the Audit Committee and presented to the Board of Directors from the next year. | Actions should be taken to comply with the circular provisions in the next year. |
| (h) Asset Management Circular No.06/2023 dated 24 August 2023 of the Ministry of Finance, Economic Stabilization and National Policies | Although a confirmation of the details of all vehicles in the institution should be submitted to the Comptroller General before January 31 of the following year after including into the module for vehicles under the introduction of the online non-financial asset management system for public sector institutions by 31st December of each year from 2023, confirmations had not been made for the years 2023 | The basic information of the vehicles has been entered into the Comptroller General's Office before 31 December 2023, and other information is being entered. | Actions should be taken to comply with the provisions of the Circular, and formal action should be taken against the relevant officers for failure to do accordingly. |

and 2024. Furthermore, the fuel efficiency of the vehicles, insurance-related information, maintenance and accident information were not included in the system.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs.39,801,506, and the corresponding deficit for the previous year was Rs.35,500,537. Accordingly, a deterioration of Rs.4,300,969 was observed in the financial result. This deterioration was mainly due to the accounting of an asset disposal loss of Rs.12,930,390 and an increase in development project expenditure of Rs. 9,092,578 during the year under review.

2.2 Variance Analysis of Major Income and Expenditure Items

The variances in major income and expenditure items in the year under review compared to the previous year were as follows.

| Source | 2023 Rs. | 2024 Rs. | Variance Rs. | Percentage % |
|------------------------------|-------------|-------------|-----------------|-----------------|
| Income | | | | |
| Treasury Recurrent Grants | 118,443,000 | 127,976,679 | 9,833,679 | 8 |
| Treasury Capital Grants | 10,234,226 | 27,066,630 | 16,832,404 | 164 |
| Self-generated Income | 16,668,791 | 19,932,412 | 3,263,621 | 19 |
| Expenditures | | | | |
| Salaries and Remuneration | 94,017,991 | 112,211,050 | 18,193,059 | 19 |
| | 18,529,555 | 26,323,460 | 7,793,905 | 42 |
| Supplies and Consumables | 17,934,030 | 16,008,854 | (1,925,176) | 11 |
| Other Expenses | 3,971,691 | 3,506,353 | (465,338) | 12 |
| Research Project Expenses | | | | |
| Development Project Expenses | 33,936,148 | 43,028,726 | 9,092,578 | 27 |

3. Operational Review

3.1 Management Inefficiency

| Audit Observation | Comments of the Management | Recommendation |
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| (a) Although the government has incurred Rs.8,780,987 as research grant for research projects conducted by the institute's officers in collaboration with the private sector for the period from 2020 to 2024, a system had not been developed to follow up on the contribution made by that research to the country's economy. Furthermore, it was not confirmed whether the findings of those researches, which are integrated with the private sector will result in benefits flowing to the entire population of the country. | Normally the purpose of research conducted with the private sector is usually to provide the necessary technology for the party that made the request for that research and the technology cannot be transferred to other external parties under the agreement. And also it is unnecessary to conduct any follow-up on the use of that technology. The work related to the investigation of the three officers has now been completed and only the report needs to be submitted. The amount of Rs.264,152 has been paid only for the first six months of the research and the progress of the relevant tasks for those first six months and the report has already been submitted to the Sri Lanka Agricultural Research Policy Council. | A system that can be measured contribution of research conducted in collaboration with the private sector to the national economy should be developed. |
| (b) A cost of Rs.1,956,120 had been incurred and 500 samples were tested in 2017 for the project conducted to check whether the 04 types of heavy metals were included in 07 types of food imported using the provisions of the Ministry of Agriculture in 2017. According to the relevant project report, it was confirmed that certain food items contained heavy metals such as Cadmium, Arsenic and Lead, exceeding the maximum safety level. However, in accordance with the conclusions and recommendations of the report, the institute has not taken decision to conduct further testing of food items containing heavy metals and to communicate that information to all responsible parties and reported only to the Ministry of Agriculture. | The 500 samples have been analysed and the final report has been submitted to the Ministry of Agriculture. In this project, the Ministry of Agriculture acted as the customer and the National Post-Harvest Management Institute as the service provider. Accordingly, all relevant reports have been submitted to the Ministry of Agriculture and Audit. The future course of action for this project should be decided by the Secretary to the Ministry of Agriculture. | According to the conclusions and recommendations of the project report, further testing of food items containing heavy metals should be carried out and a formal mechanism should be established under formal approval so that such observations are communicated to all responsible parties. |

3.2 Operational Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|---|--|
| (a) The institute was provided with Treasury capital grants of Rs.11.79 million for 34 research projects for the 4-year period from 2021 to 2024. Only 17 projects consisting of 11 ongoing projects during the year under review and 06 new projects were included in the annual action plan and follow-up activities had not been carried out during the year regarding the remaining 17 projects. A follow-up system had not been developed to measure the contribution of the research projects conducted by the institute to the national economy of the country through treasury grants and to investigate whether the money spent by the government was being used economically efficiently and effectively. | Out of the 34 research projects conducted between 2021 and 2024, 17 were completed by 2024 with the exception of 17 that were also ongoing in 2024. Generally, only research projects initiated in that year and carried forward from the previous year and being implemented in the relevant year are included in the Annual Plan of the institution. As a follow-up to completed research, the technology will be made available to the field through the Institute's Research Socialization Committee and Technology Promotion Division. | A system that can be followed up the contribution of research results to the national economy should be developed. |
| (b) An expenditure of Rs.439,038 had been incurred as of 31 December 2024 for the research project on design and development of monkey and bat repellent device under ongoing projects and although the physical progress was reported as 100 per cent by the end of the year, the equipment found through it had not been socialized so that it could be used for the relevant purpose. | The primary objectives of this project were to design and develop a repellent device for monkeys and raccoons and to identify repellent frequencies for monkeys and raccoons using that device was proposed. Along with that aim, this project designed a repellent device and conducted field tests to identify the repellent frequencies. The jungle monkeys showed significant repulsion to this device and it was revealed that monkeys in urban areas have largely ignored it. | Projects should be implemented to the extent that research results can contribute to the national economy in the future, and it should be determined after a formal study whether the completed equipment has the potential to be further developed. |
| (c) Although Rs.8.93 million was allocated for 6 new research projects in the year 2024, only Rs. 4.2 million was spent out of that. Although Rs. 5.4 million and Rs. 1.15 million were allocated for research projects called Study on aflatoxin contamination in maize and its possible control measures ,and value | There was no opportunity to revise the action plan after cut down the budget in some projects, and approvals for implementing research are made through Ministries. Also, since the preparation of the relevant project proposals is carried out in | Formal action should be taken against the relevant parties for failure to obtain approval from the Sri Lanka Agricultural Research Policy Council for research |

additions to crop wastage at economic centers in Sri Lanka: a sustainable waste management approach respectively, less than 48 percent of the amount was spent during the year as Rs.2.9 million and Rs.263,490

Also, the approval of the Sri Lanka Agricultural Research Policy Council had not been obtained for the project proposals of those researches.

accordance with the format issued by the Ministry, further actions were not taken to obtain approval from the Sri Lanka Agricultural Research Policy Council and relevant information will only be provided to the institution when they make inquiries.

projects and non-fulfilment of the tasks required in accordance with the action plan during the year and, formal actions should be taken to prevent this situation in the future.

- (d) Although Rs. 9,572,715 was spent to obtain patent rights for the discoveries of the research on the introduction of organic methods for ripening fruits which was carried out from 2016 to August 2019 and to popularize the results of the research on a commercial level, the project had not been at operational level even as at 31 December 2024.

This money has been spent to purchase equipment required for essential laboratory analysis related to the research and the equipment needed to socialize the results for commercial use. Accordingly, although the research was carried out as scheduled, the technologies identified were not socialized as they had little potential for commercial use. However, the equipment purchased for this research is essential for post-harvest research and has been used in many research projects, and 3 research papers have been published related to this research.

A developmental program should be urgently introduced to implement projects to the point where research results can contribute to the national economy.