

Industrial Development Board of Ceylon

1. Financial statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Industrial Development Board of Ceylon as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Non-compliance with the following Sri Lanka Accounting Standards were observed.

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| (a) Sri Lanka Accounting Standard No.3 | (i) The Statements of Changes in the Equity had not been presented with the financial statements. |
| | (ii) Adequate provision for bad and doubtful debts had not been made for the debtors. |
| | (iii) The credit balances amounting to Rs.1,035,907 in 24 debtors accounts had been set off against the debit balances |
| (b) Sri Lanka Accounting Standard No. 9 | The method adopted for the preparation of a Cash Flow Statement had not been disclosed in the accounts. |

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| (c) Sri Lanka Accounting Standard No. 29 | The accounting policy on revenue recognition had not been disclosed in the financial statements. |
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1:2:2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The value of 12 sugar test kits amounting to Rs.120,000 had been added to the stocks of Kithul Project Division instead of showing under the fixed assets.
- (b) The profit amounting Rs.1,169,776 earned from the sale of 04 motor vehicles revalued in he year 2010, for Rs.2,536,788 had been taken into the income for the year and in addition the reserve of Rs.1,683,476 created from the revaluation of those motor vehicles had also been taken into the income for the year. As such the income for the year had been overstated by that amount.
- (c) A sum of Rs.12,139,625 comprising Rs.8,730,724 spent on the Technical Services Building a sum Rs.1,787,500 on the Moneragala District Office and the sum of Rs.1,621,401 incurred for Lakkam building , which had not been completed had been included in the value of buildings.
- (d) Three laptop computers purchased for Rs.1,041,600 during the year had not been depreciated and as such depreciation had been understated by a sum of Rs.208,320.
- (e) The further depreciable value of Rs.26,881,326 relating to 12 items of fixed assets including office furniture, equipment and library books had not been depreciated.
- (f) The profit on the sale of fixed assets amounting to Rs.1,169,776 had not been adjusted to the pre-tax profit in the cash flow statement. Even though the proceeds from the sale of fixed assets amounted to Rs.2,536,780 it had been shown as Rs.2,853,252 under the investments in the cash flow statement thus overstating by a sum of Rs.316,472.

- (g) The interest income of the current year amounting to Rs.1,182,370 and the interest expenses amounting to Rs.11,695 had not been shown separately under the interest in the cash flow statements.
- (h) Instead of debiting the expenditure incurred on the preparation of the Corporate Plan for the 03 years from 2011 to 2013 to the Income Account for the year as the expenditure for the year, a sum of Rs.673,850 out of that had been debited to the Income Account and a sum of Rs.1,347,702 had been brought to account under the other current assets.

1:2:3 Unreconciled Control Accounts

Differences were observed between the following expenditure appearing in the financial records and the subsidiary registers.

Particulars	Value according to the Financial Records	Value according to the Subsidiary Registers	Difference
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	Rs.	Rs.	Rs.
Security Expenditure	15,957,956	17,219,902	1,261,946
Electricity	10,811,791	11,045,144	233,353

1:2:4 Unexplained Differences

- (a) The following differences were observed between the stocks shown in the final accounts and the stocks shown in the Stock Verification Reports.

Division	According to Final Accounts	According to Stock Verification Reports	Differences
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	Rs.	Rs.	Rs.
Sub-stores Foundry Division	3,048,963	3,034,606	14,357
Villages Development Division and Kithul Programme	16,509,779	16,743,719	(233,940)
Rubber Goods Development Division	8,919,115	4,555,591	4,363,524
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	<u>28,477,857</u>	<u>24,333,916</u>	<u>4,143,941</u>

The above differences had resulted in the increase of the net loss for the year under review by a sum of Rs.4,143,941.

- (b) Even though a sum of Rs.12,860,357 had been shown in the financial records of the current year as the Value Added Tax receivable, according to the Tax Returns furnished to the Department of Inland Revenue as at the end of the year that had been shown as the Value Added Tax payable amounting to Rs.149,749. As such an unexplained difference of Rs.13,010,106 existed.

1:2:5 Accounts Receivable and Payable

(a) Accounts Receivable

- (i) According to the age analysis of debtors, the total value of 30 Accounts Receivable amounted to Rs.54,888,710 and comprised Rs.14,443,562 less than 01 year old, Rs.3,758,618 old between 01 year and 02 years, Rs.1,936,495 old between 2 to 4 years, Rs.8,277,793 old between 4 to 5 years and Rs.26,472,242 older than 05 years. Proper courses of action had not been taken for the recovery of those balances. It was observed that the provision for bad debts amounting to Rs.5,047,335 was not adequate for the purpose.
- (ii) According to the accounts, three debtors accounts called “overpayments to customers” totalling Rs.464,890 contained credit balances and the reasons for that had not been explained to audit.

- (iii) Sundry debtors amounting to Rs.462,845 and dishonoured cheques of debtors valued at Rs.346,133 totalling Rs.808,978 had been written off from the accounts without approval.
- (iv) Unidentified deposits amounting to Rs.3,125,837 existed as at the end of the current year in 05 Bank Accounts of the Board and comprised Rs.549,236 older than 04 years, Rs.74,209 older than 03 years, Rs.986,341 old between 2 to 3 years and Rs.941,074 old between 01 year and 02 years. Action had not been taken to identify them and account for as income. Nevertheless, this amount had been reduced gradually from the year 2009.
- (v) Prepayments amounting to Rs.17,416,686 had been made again to 07 institutions in the year under review without settling the prepayments made in the preceding years.

(b) Accounts Payable

- (i) Erroneous amounts had been shown in the Refundable Deposit Accounts amounting to Rs.6,565,529 relating to 331 industrialists who were observed to have left the Industrial Estates.
- (ii) Even though title of lands the Industrial Estates belonging to the Government cannot be transferred, a system of transfer of the title of lands under a hire purchase system had been implemented and deposits amounting to Rs.14,843,613 refundable to 126 such industrialists been shown in the accounts.
- (iii) Even though there were bid security amounting to Rs.887,239 older than 03 years existed, such bid security deposits refundable after the completion of the procurement process remained in the accounts.
- (iv) Creditors balances older than 03 years amounting to Rs.48,048,396 remained in the accounts and adequate courses of action had not been taken in the year to settle those balances.

1:2:6 Lack of Evidence for Audit

The evidence required for the satisfactory vouching/ verification of the following items was not made available to audit.

Particulars	Value	Evidence not made available
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	Rs.	
Work-in-progress	12,299,692	Verification Reports
Furnished Stocks	2,480,536	Verification Reports
Raw Materials purchased for Rubber Goods Development Centre, Peliyagoda	20,422,093	Stock ledgers showing the receipt, issue and the value of Raw Materials.
Prepayments	93,117,377	Register of Prepayments maintained in the updated manner

1:2:7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed during the course of audit.

- (a) Employees' Provident Fund Act, No. 15 of 1958, Section 10. Even though Board to pay contributions to the Employees Provident Fund computed on the total earnings from employment, contributions amounting to Rs.10,785,306 payable on the allowances amounting to Rs.49,024,124 paid in the year under review had not been paid to the Fund.
- (b) Employees Trust Fund Act, No. 46 of 1980 Section 16. Even though the employer is bound to pay to the Employees' Trust Fund the contributions computed on the total earnings of the employee contributions amounting to Rs.1,470,725 payable on

the allowances amounting to Rs.49,024,124 paid in the year under review had not been paid to the Fund.

In this Connection the Chairman's view is that the Treasury provisions have been approved by computing the contributions to the Employees' Provident Fund and the Employees' Trust Fund only on the basic salary.

- (c) Inland Revenue (Amendment) Act, No. 22 of 2011
- Even though the Pay As You Earn Tax of a particular month should be remitted to the Department of Inland Revenue before the 15th day of the month following, action had not been taken for the recovery of the Pay As You Earn Tax for January to May 2011 amounting to Rs.269,375 from the salaries of employees and remit to the Department of Inland Revenue.
- (d) Government Financial Regulations
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- (i) Financial Regulation 110
- A Register of Losses and Damage had not been maintained.
- (ii) Financial Regulation 371(2)
- Even though advances granted should be settled immediately after the completion of the purpose, advances amounting to Rs.2,344,750 relating to a number of years had not been settled even by the date of audit, (01 March 2012).
- (iii) Financial Regulation 387
- The Paying Officer should always make sure that the bank balance available is adequate to make all payments by cheque and desist from obtaining Bank

- Overdrafts. Nevertheless, negative balances of Rs.2,024,206 and Rs.159,835 existent in 02 Bank Accounts as at 31 December 2011.
- (iv) Financial Regulations 394 and 396 Action had not been taken on 08 cheques valued at Rs.63,957 issued but lapsed for more than 06 months by 31 December of the year under review.
- (v) Financial Regulation 453. A Register of Personal Emoluments had not been maintained to ensure that the salaries at approved salary scales had been paid to the approved cadre.
- (vi) Financial Regulation 751 Inventory Registers had not been maintained.
- (e) Circulars

- (i) Public Administration Circular No. 41/90 of 10 October 1990 Even though the fuel consumption should be tested once in every 06 months it had not been so done in respect of motor vehicles of the Board.
- (ii) Procurement Guidelines of the Government

- Section 2.11.3 Minutes of Procurement Committees had not been maintained in the specified formats.
- Section 2.14.1 Even though the transport charges for scrap materials had been paid at different rates per kilogram proposed for each district a sum of Rs.611,520 had been paid for transport charges without obtaining a competitive. minimum charge.

Section 6.2.2 In certain instances adequate time had not been given to suppliers to furnish bids.

Section 6.3.6 Bid openings had not been recorded in the specified formats.

1:2:8 Transactions not Supported by Adequate Authority

The following matters were observed.

- (a) The Corporate Plan for the years 2011 to 2013 had been prepared at a cost of Rs.1,985,500 exclusive of Value Added Tax. The bidder who quoted Rs.2.2 million had been selected by calling for bids only through registered post. The selection had been made without submitting the bids to the Major Procurement Committee and without obtaining the approval. The approval of the Minor :Procurement Committee had been obtained after reducing the contract prices to Rs.1,985,500 through the discounts obtained from the suppliers in two occasions.
- (b) Surpassing the provisions of the Procurement Guidelines, the security services for the year 2011 a security services company which quoted Rs.17.8 million had been selected based on a letter sent by the Ministry of Defence, after rejecting the bids of Rs. 12.9 million, Rs.13.1 million, Rs.14.1 million and Rs.16.7 million received.

2. Financial Review

2:1 Financial Results

The Government grant for recurrent expenditure for the year 2011 amounted to Rs. 228 million and the operating results of the Board for the year before taking into account the Government grant amounted to Rs.234.8 million and the corresponding deficit for the preceding year before taking into account, the

Government grant of Rs.221.2 million amounted to Rs.240.0 million. Thus an improvement of Rs. 5.2 million was indicated. The increase of Rs. 28.8 million in the internal income and the increase of recurrent expenditure by Rs.24.5 million had been the major reasons for the increase.

3. Operating Review

3:1 Performance

The following observations are made.

(a) Industrial Estates

There were 109 industrial units and 120 idle industrial units in 18 Industrial Estates in 15 districts in the Island. There were 45 closed down industrial units, 51 units occupied without authority and 28 newly allocated industries among the idle industrial units.

(c) Common Services Centre under Villages Development Projects

The following matters were observed.

- (i) Even though 106 Production Villages had been established under the Villages Development Programmes, 19 out of the Common Services Centres constructed in those villages had not been opened to the public.
- (ii) Out of the 75 Common Services Centres opened to the public 46 were in operation and 29 had been idling.
- (iii) Out of the operating Common Services Centres about 50 per cent had been operation at the marginal level.
- (iv) A lesser number of beneficiaries than the number of beneficiaries expected were observed at most centres as shown in the following examples.

Project	Number of Beneficiaries Expected	Number receiving Benefits
Kurulugma (Clay)	91	08
Kudawella (Coir Fibre)	180	70
Udukiriwala (Clay)	600	210
Bedigantota (Paper)	25	03
Dimbulkambu (Paper)	30	05

(c) Village Development Projects

The following matters were observed.

(j) Coir Fibre Industries

A sum of Rs.3.6 million had been spent for the Common Services Center and machinery and equipment in the Ilimba area in Horana and that Centre had been idling over long periods during the 05 years up to the end of the year 2011.

A sum of Rs.1.3 million had been spent for the machinery and equipment for the Coir Fibre Industry at Bambaragastenna Ratnapura. As it had not been successful, it had been handed over to a private contractor. It was observed that such course of action is not consistent with the objectives of a project meant for raising the economy of those engaged in the industry.

(ii) Smithy Villages

The goods valued at Rs.257,525 supplied to the Common Services Centre of the Epilawatta Smithy Village and the goods valued at Rs.32,175 supplied to its members did not conform to the specified standards. Those remained idle for four years as those were not in working order.

The bolt hammer valued at Rs.210,000, two anvils valued at Rs.29,000 and 02 vices valued at Rs.21,775 supplied to the Udugoda Smithy Village in the Panwila Divisional Secretariat Division had not been in working order as those were substandard.

(iii) Jewellery Villages

The goods valued at Rs.168,298 supplied to the Nakandala Jewellery Village, Eheliyagoda remained without being used as those did not conform to the specified standards.

The Chairman made the following comments on the Villages Projects handed over to the public. The Board functions as the implementation agency for the Villages Projects Programme executed according to a Programme of the line Ministry and on the completion of construction works of the Projects, they are handed over to the public. Their maintenance is assigned to a co-operative society in which the beneficiaries are members. The Board carry out follow up action on operation of the Villages Projects.

3:2 Management Inefficiencies

The following matters were observed.

- (a) A Computer Training Centre had been commenced in the Ratnapura area in the year 2010 and 01 course had been conducted. The Project had been closed down on 07 April 2011 as it was not successful and the equipment including the computers had been brought back to the Head Office. The building facilities for the Project had been obtained from the Ratnapura College of Technology. The expenditure amounting to Rs.731,224 incurred on establishing a computer laboratory, air conditioning, etc. had become fruitless.

- (b) An agreement for a sum of Rs.7,231,517 had been entered into on 05 January 2011 for the supply of 35,410 clay ovens before 28 February 2011 to 05 districts under the World Food Programme of the United Nations. The agreement had been cancelled on 01 July 2011 as clay ovens valued at Rs.3,244,845 or 46 per cent of the agreed quantity only had been supplied by 28 June 2011.
- (c) Out of the Value Added Tax collected by the Board in the first quarter a sum less than the amount collected by Rs.813,387 had been remitted to the Department of Inland Revenue.
- (d) The second lower quotation which had satisfied all specifications had been rejected and the third lower bid had been selected in the purchase of 05 Desk Top Computers. As such the Board had incurred a loss of Rs.17,000.
- (e) The seventh lower bid had been selected by rejecting the second lower quotation which had satisfied all specifications for the purchase of 03 computers to the Marketing Divisions, thus causing a loss of Rs.13,500.

3:3 Operating Inefficiencies

The following matters were observed.

(a) Scrap Materials Project

A system of procedures relating to the purchase, sale and storage of scrap materials had not been prepared and implemented in accordance with the Cabinet decision relating to the implementation of the Project. In view of such situation, it was observed that irregularities had taken place in the purchase, sale and storage due to the following reasons.

- (i) Even though prepayments of Rs.4,625,697 had been made to 06 institutions in the year under review and the year 2010 action had not been taken to get down the scrap materials to the Board.
- (ii) The settlement vouchers for the scrap materials valued at Rs.4,095,970 purchased through prepayments in the years 2010 and 2011 had not been prepared even by 31 December 2011.

- (iii) Even though scrap materials should be distributed at a fair value to the small scale industrialists, contrary to that , 50 per cent of the scrap materials valued at Rs.16,708,157 sold from January to July 2011 had been distributed among 04 industrialists.
- (iv) In certain instances goods are not properly weighed and taken over and as due to the sale of goods outside the premises, the value of goods sold according to the covered Goods Received Notes amounted to Rs.415,458.
- (v) The scrap materials at the Imiyangoda Scrap Materials Collection Centre had been sold by auction from 29 April 2011 and the Centre had been closed down. The following matters were observed in that connection.

According to the documents a balance stock of 304.7 tons of scrap materials valued at Rs.4.6 million was observed. As there is no such saleable stock available, an equivalent stock shortage was observed.

Even though there were credit purchases in the preceding years a sum of Rs.490,493 not shown under the credit purchases and creditors in the final accounts had been paid in he year under review.

- (b) The work in connection with conducting an examination for the recruitment of Business Promotion Managers to the Board for deployment in the Northern and Eastern areas had been assigned to a person retired from the Open University of Sri Lanka and a sum of Rs.65,000 being the 50 per cent payment thereon had been paid to the private Bank Account of that person. As such the confidentiality of holding he examination had not been protected.

3:4 Idle and Underutilised Assets

The following observations are made.

- (a) There were 04 out of order machines and 05 unused machines at the Peliyagoda Rubber Goods Centre. The building with 2,000 square feet of office space, formerly used to maintain the Colombo District Office, of the Board had been idling over a period exceeding 06 months.

- (b) Sixteen shoe manufacturing machines said to be unfit for use had been kept in the above Centre without being used.
- (c) Twenty eight shoe manufacturing machine valued at Rs.2,771,972 belonging to the Villages Project, purchased for distribution to the beneficiaries had been lying idle in the above Rubber Goods Centre.
- (d) Good valued at Rs.11,712,136 purchased under the Villages Development Project for distribution to the Common Services Centres and the beneficiaries remained in the stores. These goods had been purchased over periods ranging from 01 year to 06 years. As long periods had elapsed after the purchase of those goods the guarantee periods had expired. Certain goods had become obsolete while certain others needed repairs at additional costs due to non use. It was observed that certain goods had been destroyed by animals such as rats.
- (e) A sum of Rs.5.4 million had been spent on the Leather related Goods Production Village Project at Pallegedara, Ratnapura and that had been idling for 05 years since the year 2006. According to the Chairman's reply, a private institution is engaged in manufacturing work there at present on lease basis. Nevertheless, it is a deviation from the basic objectives expected from this programme.
- (f) The construction work of the products showroom and the Marketing Centre built at a cost of Rs.1,412,000 in front of the Badulla Provincial Office had been completed by the end of the year 2008. But it had not been used up to the end of the year under review.
- (g) Three dough mixer machines purchased for Rs.298,500 on 03 February 2006 for the Gonapura Food Project had been lying in the stores and the guarantee period of the machine had expired.
- (h) The building of 1,400 square feet of floor space with water and electricity supply situated on a land called Dimbulawatta 89 perches in extent at Miyunugala Mahiyangana had not been used for any purpose whatsoever for more than 14 years.
- (i) The hostel with accommodation for about 25 persons at the Appropriate Technology Centre, Pannala had been closed down from the year 2004.

- (j) A mushroom dryer machine purchased at a cost of Rs.1,180,000 for the mushroom cultivation had been lying in the Board premises without being recorded in the inventory as a part of it had been misplaced.
- (k) The fruitless investment of Rs.5.3 million in the Industrial Company of which transactions had ceased over a period of 18 years had been shown under fixed assets in the final accounts.
- (l) Even though 25 Bank Current Accounts of the Regional Offices and different Divisions of the Board had been closed down in the current year, favourable balances amounting to Rs.161,900 in 11 accounts and overdraft balances in two accounts amounting to Rs.2,184.041 had been shown in the financial statements.
- (m) A sum of Rs.1,424,654 had been shown under the current assets as Goods and Services Tax defunct as at present.

3:5 Identified Losses

The following observations are made.

Overpayments amounting to Rs.6,268,931 and under payments amounting to Rs.1,212,589 had been made from the year 2006 to 2010 due to the erroneous computation of salaries resulting from the failure to place salaries on the correct steps in terms of the Management Services Circular No. 30.

3:6 Cadre Administration

The following observations are made.

The approved and the actual cadre of the Board are as follows.

Grades	Approved Cadre	Actual Cadre	Vacancies
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Executive Grades	264	206	(58)
Clerical and Allied Grades	236	131	(105)
Minor Grades	264	195	(69)
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	764	532	(232)
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- (a) The approval for the Scheme of Recruitment in terms of the Management Services Circular No. 30 had not been obtained up to the end of the year under review.
- (b) Contrary to the Management Services Circular No. 30 the Board had recruited 76 persons for permanent posts and 09 persons on contract basis and the contract employees remain in service for periods ranging from 02 to 04 years. Similarly 41 persons had been recruited on casual basis without approval and their service periods range between 01 year to 05 years.
- (c) Newspaper advertisements had been published for the post of Director Technical Services without a formally approved Scheme of Recruitment and the required qualifications had been specified as experience of 15 years in executive capacity with a degree in Science or Engineering of which 08 years should be in a Senior Executive Post. Instead of the 15 years experience, the officer appointment to the post had stated 13 years in difference Management Services in the private sector and did not possess experience of 08 years in Senior Executive capacity. The confirmation of experience gained by him had not been obtained from the institutions concerned.

3:7 Build up of a Fund for Provisions on Employees' Gratuity

The following observations were made.

Even though a provision of Rs.106.6 million had been made for the employees' gratuity, that amount had not been effectively invested. In this connection the Chairman replied that the money cannot be used for investment as the salaries and gratuity are paid from Treasury provisions.

3:8 Motor Vehicles Utilisation

The following matters were observed.

- (i) The bus purchased for Rs.8,711,713 in the year 2009 with the objective of dissemination of technology to the villages had been used in the year 2011 for 04 exhibition duties without a targeted plan and had run less than 2,000 kilometres for that purpose. The bus had been run for only for 3,098 kilometres in the year 2010 for 08 trips. As such it had been underutilized.
- (ii) In view of the failure of the above project, this bus remained idle most of the time and the bus purchased at a high cost needed frequent repairs.
- (iii) The Board owns a fleet of 41 motor vehicles and 05 motor vehicles with out of order kilometers were observed.

3:9 Transactions of Contentious Nature

The following observation is made.

The method of selection of resource persons for the Seminars and Workshops conducted by the Board and the approvals for the payments made to them at the rates of Rs.2,500 and Rs.3,500 per hour and Rs.10,000 per 06 periods could not be ascertained in audit.

4. Accountability and Good Governance

4:1 Corporate Plan

- (a) The Board had prepared in Corporate Plan for he years 2011 to 2013 at a cost of Rs.2 million.
- (b) Most of the activities included in the Corporate Plan had not been executed. A reconciliation of the targets set out in the Corporate Plan with the Progress Reports revealed that 121 activities relating to 07 Divisions had not been executed by he end of the year and 21 instances where the level of execution had been less than 50 per cent.

4:2 Action Plan

A separate Action Plan for the year 2011 had not been prepared and approved.

4:3 Audit and Management Committees

Even though the Audit and Management Committee should meet at least once in each quarter in terms of Section 7.1:4 of the Public Enterprises Circular No. PED/12 of 02 June 2003, only one meeting had been held during the year 2011.

4:4 Procurement Plan

A Procurement Plan and the Procurement Time Schedules that should be prepared in terms of Section 4.2.1 and 4.2.2 respectively of the Procurement Guidelines had not been prepared.

4:5 Budgetary Control

The expenditure incurred under 02 capital items and 09 recurrent items had exceeded the budgeted expenditure by sums of Rs.0.7 million and Rs.8.8 million respectively.

The budgeted Income and Expenditure Account, the budgeted Balance Sheet and the cash flow statement had not been presented with the budget in terms of Section 5.2.1 of the Public Enterprises Guidelines on Good Governance dated 02 June 2003.

As such the budget had not been made use of as an instrument of control.

5. Systems and Controls

- (a) The Lakkam Marketing Centre sells the goods of industrialists on payment after the sale basis. But proper stock books had not been used for recording the receipt and issue of stocks.
- (b) Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.
 - (a) Preparation of Bank Reconciliation Statements
 - (b) Accounting and Computer Systems
 - (c) Debtors and Creditors Control
 - (d) Motor Vehicles Control and Maintenance of Registers
 - (e) Control of Purchase and Sale of Scrap Materials
 - (f) Advances
 - (g) Stock Control