

**Report of the Auditor General on**  
**Head 116 – Ministry of Co-operatives and Internal Trade**  
**and the Departments under the Ministry – Year 2013**

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This Report comprises two Parts.

- Part 1 - Summary Report on the Accounts of the Ministry and the Departments under the Ministry
- Part 2 - Detailed Report on each Head

**Part 1**

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Summary Report on the Accounts of the Ministry of Co-operatives and Internal Trade  
and the Departments under the Ministry

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1. Departments under the Ministry

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<u>Head</u>	<u>Name of Department</u>
298	Department of Measurements Units, Standards and Services
300	Department of Food Commissioner
301	Department of Co-operative Development
302	Co-operative Employees Commission

2. Accounts

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2:1 Appropriation Account

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Total Provision and Expenditure

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The total net provision made for the Ministry and the 04 Departments under the Ministry amounted to Rs.2,046,654,000 and out of that a sum of Rs.1,734,897,369 had been utilized by the end of the year under review. Accordingly, savings out of the net provisions of the Ministry and each Department ranged between Rs.681,256 and Rs.249,456,693 or percentages of the net provision ranging from 1 per cent to 18 per cent. Details appear below.

Head	As at 31 December 2013			Savings as a Percentage of Net Provision
	Net Provision	Actual Expenditure	Savings	
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	Rs.	Rs.	Rs.	
116	1,426,981,000	1,177,524,307	249,456,693	17
298	288,850,000	275,399,427	13,450,573	05
300	253,279,000	206,930,535	46,348,465	18
301	64,704,000	64,022,744	681,256	01
302	12,840,000	11,020,356	1,819,644	14
Total	2,046,654,000	1,734,897,369	311,756,631	15
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## 2:2 Advance Accounts

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### 2:2:1 Advances to Public Officers Accounts

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#### Limits Authorized by Parliament

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The limits authorized by the Parliament for the Advances to Public Officers Accounts of the Ministry and the 04 Department under the Ministry and the actual amounts are given below.

Item Number	Expenditure		Receipts		Debit Balance	
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	<u>Maximum Limit</u>	<u>Actual</u>	<u>Minimum Limit</u>	<u>Actual</u>	<u>Maximum Limit</u>	<u>Actual</u>
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
11601	6,000,000	5,314,034	3,400,000	5,307,650	30,000,000	19,896,540
29801	9,000,000	2,225,958	3,500,000	4,966,404	35,000,000	18,469,703
30001	7,500,000	3,631,453	3,500,000	8,448,680	46,000,000	20,237,280
30101	6,000,000	3,382,630	2,000,000	2,820,779	21,000,000	12,112,984
30201	2,000,000	1,130,640	300,000	548,397	6,000,000	2,103,090

## 2:2:2 Winding-up of Advance Accounts

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The winding-up of 02 Advance Accounts of a Department under the Ministry had been decided on 01 January 2003 and 01 January 2005. Details appear below.

Department	Advance Account Activity	Account Number	Date of Decision to wind up	Period taken up to 31 December 2013
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				Years
Department of Food Commissioner	(i) Kitchen and Bakery Advance Account	7000/0/0/0300/0002	01 January 2003	11
	(ii) Food Purchase and Distributors Advance Account	7000/0/0/0300/0003	01 January 2005	09

## 2:3 Imprest and General Deposit Accounts

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### 2:3:1 Imprest Accounts

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The Imprest balances of the Ministry and the 04 Departments under the Ministry as at 31 December 2013 totalled to Rs.68,518,728. Details appear below.

Ministry/Department	Imprest Account Number	Balance as at 31 December 2013
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		Rs.
Ministry of Co-operatives and Internal Trade	7002/0000/00/0046/0013/000	31,658,128
Department of Measurement Units, Standards and Services	7002/0000/00/0327/0013/000	4,271,896
Department of Food Commissioner	7002/0000/00/0107/0013/001	32,027,841
Department of Co-operative Development	7002/0000/00/0018/0013/000	528,253
C-operative Employees Commission	7002/0000/00/0156/0013/000	32,610
Total		68,518,728
		=====

## 2:3:2 General Deposit Accounts

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The balances of the General Deposit Accounts of the Ministry and three Departments under the Ministry as at 31 December 2013 totalled Rs.224,625,816. Details appear below.

Ministry/Department	Deposit Account Number	Balance as at 31 December 2013
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		Rs.
Ministry of Co-operatives and Internal Trade	6000/0000/00/0015/0029/000	26,418,556
Department of Measurement Units, Standards and Services	6000/0000/00/0006/0069/000	44,445,215
Department of Food Commissioner	6000/0000/00/0008/0013/000	76,673,230
-do-	6000/0000/00/0015/0023/000	53,071,263
-do-	6000/0000/00/0015/0155/000	8,755,872
Department of Co-operative Development	6000/0000/00/0006/0080/000	8,604,605
-do-	6000/0000/00/0015/0156/000	6,657,075
Total		----- 224,625,816 =====

**Part 2**

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Detailed Report on each Head  
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1. Head 116 – Ministry of Co-operatives and Internal Trade

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1:1 Scope of Audit

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The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Ministry of Co-operatives and Internal Trade for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 02 December 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1:2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

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The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

1:3 Audit Observation

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According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observations appearing at (a) to (g) and other major audit findings appearing in paragraphs 1:4 to 1:13 herein, the Appropriation Account, and the Reconciliation Statement of the Ministry of Co-operatives and Internal Trade had been prepared satisfactorily.

(a) Presentation of Accounts

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The following financial statements of the Economic Centres Management Trust Funds functioning under the Ministry had not been furnished even by 20 October 2014.

Name of Economic Centre	Financial Statements not Presented
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(i) Meegoda	From the commencement in the year 2003 to the year 2011 and the year 2013.
(ii) Narahenpita	From the commencement in the year 2008 to the year 2013.
(iii) Ratmalana	From the commencement in the year 2009 to the year 2013.
(iv) Welisara	From the commencement in the year 2003 to the year 2011 and the year 2013.
(v) Veyangoda	From the commencement in the year 2007 to the year 2010.
(vi) Keppetipola	From the commencement in the year 2001 to the year 2011 and the year 2013.
(vii) Dambulla	From the commencement in the year 1999 to the year 2011.

(viii)	Nuwara Eliya	From the commencement in the year 2006 to the year 2013.
(ix)	Kuruduwatta	Years 2012 and 2013.
(x)	Kandehandiya	From the commencement in the year 2004 to the year 2013.
(xi)	Tambuttegama	From the commencement in the year 2005 to the year 2013.
(xii)	Embilipitiya	From the commencement in the year 2003 to the year 2013.
(xiii)	Piliyandala	From the commencement in the year 2010 to the year 2013.

(b) Lack of Evidence for Audit

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The following information had not been furnished to audit.

- (i) Lease agreement entered into between the Ministry and the Sathosa for the building rent and the building rent assessment report.
- (ii) The formal lease agreement relating to the lease of the business premises of the Ratmalana Economic Centre and the reports of the assessment of the business premises made by the Department of Valuation.
- (iii) Information relating to 7 items of account totalling Rs.64,754,667 of the Dambulla Economic Centre.
- (iv) The particulars relating to the disposal of machinery valued at Rs.705,117 shown in the Report on the Movement of Non-current Assets in the Appropriation Account.

(c) Replies to Audit Queries

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The Ministry had not furnished replies for the following audit queries.

- (i) The Ministry had not furnished replies to 06 audit queries issued in the year under review even by 31 March 2014. The value of quantifiable transactions relating to those audit queries amounted to Rs.24,440,926.

- (ii) Even though 04 audit queries relating to the Economic Centre Dambulla were issued during the year under review, replies to those audit queries had not been furnished even by 31 March 2014. The value of quantifiable transactions relating to those audit queries amounted to Rs.10,226,725.

(d) Excess Expenditure  
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The provision made for Object 116-1-3-2201 had been exceeded by a sum of Rs.660,000.

(e) Budgetary Variance  
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The following observations are made.

- (i) The entire net provisions amounting to Rs.106,625,000 made for 10 Objects had been saved.
- (ii) Excess Provisions had been made for 15 Objects, and as such the savings, after the utilization of provisions, ranges between 25 per cent to 90 per cent of the net provisions relating to the respective Objects.

(f) General Deposit Account  
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The following observations are made.

- (i) The balance of Rs.5,240,956 in the old Deposit Account had been transferred to the General Deposit Account No.6000/0/0/15 on 26 August 2011 without obtaining the approval of the Department of State Accounts in terms of the State Account Circular No.218/2011 of 03 June 2011. Even though those deposits were older than two years, action in terms of Financial Regulation 571 had not been taken even by 23 April 2014.
- (ii) Value Added Tax and the Withholding Tax amounting to Rs.1,360,220 had been held in the General Deposit Account by 31 December 2013. Instead of remitting the amount to the Commissioner General of Inland Revenue, a sum of Rs.209,847 out of that had been transferred to the Special Economic Centres Maintenance Account on 01 April 2013 and the balance sum of Rs.1,150,373 had been retained in the General Deposit Account even by 31 December 2013.
- (iii) A sum of Rs.800,160 received from the International Labour Organization on 26 December 2012 had been brought to account as a General Deposit and the balance thereof as at 01 January 2013 amounted to Rs.379,440. A sum of Rs.24,800 had been utilized in the year under review and the balance as at 31

December 2013 amounted to Rs.354,640. Even though the deposit is older than two years action had not been taken either to utilize it for the intended purpose or to take action in terms of Financial Regulation 571.

(g) Reconciliation Statement of the Advances to Public Officers Account

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The following observations are made.

- (i) According to the Reconciliation Statement of the Advances to Public Officers Account Item No.11601 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.347,902 and the Ministry had failed to recover those outstanding balances.
- (ii) The Ministry had failed to take action in terms of the National Budget Circular No.118 of 11 October 2004 for the recovery of Loan balances amounting to Rs.131,200 recoverable from an officer transferred and remaining outstanding for more than 04 years.
- (iii) Action in terms of Sections 4.2.4 and 4.2.5 of Chapter XXIV of the Establishments Code had not been taken for the recovery of a loan balance of Rs.4,262 recoverable from a retired officer despite the elapse of a period exceeding 8 years since his retirement.
- (iv) Action in terms of Sections 4.5 and 4.6 of Chapter XXIV of the Establishments Code had not been taken for the recovery of the loan balances totalling Rs.62,776 recoverable from two officers who had vacated their posts 4 years and 11 years ago.
- (v) Action in terms of Chapter XXIV of the Establishments Code had not been taken for the recovery of the loan balance of Rs.149,665 due from a deceased officer remaining over a period of 16 months.
- (vi) According to paragraph 04 of the National Budget Circular No.155 of 30 December 2011, the maximum distress loan payable to a public officer should be limited to Rs.250,000. Nevertheless, overpayments exceeding such limit by Rs.445,750 had been granted to 03 officers as distress loans. Action had not been taken even by 25 March 2014 for the recovery of more overpayments.

1:4 Good Governance and Accountability

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1:4:1 Annual Procurement Plan

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The Annual Procurement Plan for the year under review in terms of the National Budget Circular No.28 of 24 March 2006 had not been presented to audit even by 26 November 2014.



## 1:4:2 Internal Audit

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Even though an Internal Audit Unit had been established, an adequate internal audit had not been carried out. Investigation only had been done during the year 2013.

## 1:5 Assets Management

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## Conduct of Annual Boards of Survey

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The following observations are made.

- (a) According to the Public Finance Circular No.441 dated 09 December 2009 as amended by the letter No.PF/Board of Survey/01 dated 17 December 2010 of the Director General of Public Finance, the Board of Survey for the year 2013 should have been conducted and the report thereon should have been presented to the Auditor General before 15 March 2014. Nevertheless the Report of the Board of Survey for the year under review had been presented to the Auditor General only on 16 June 2014.
- (b) The Board of Survey of the Ministry Office, Deputy Ministry Office and the Languages Translation Branch for the years 2011, 2012 and 2013 had not been conducted.
- (c) Action in terms of the Financial Regulations had not been taken on the deficiencies pointed out in the Reports of the Board of Survey for the year 2013.

## 1:6 Non-compliances

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## Non-compliance with Laws, Rules and Regulations

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Instances of non-compliance with the following laws, rules and regulations were observed during the course of audit.

Reference to Laws, Rules and  
Regulations

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Non-compliance

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- (a) Financial Regulations of the  
Democratic Socialist Republic of  
Sri Lanka

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Financial Regulations 135 to 139

The payment vouchers had not been prepared in accordance with the provisions in the Financial Regulations referred to.

(b) Government Procurement  
Guidelines

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Guideline 2.4

The procurement of supplies and services by the Dambulla Economic Centre had not been done through the Procurement Committee and a Technical Evaluation Committee.

(c) Public Administration Circulars

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Circular No. 08/2005 of 31 March  
2005

Even though the grant of property loans to the officers of the Dambulla Economic Centre should be made through the State Banks, loans had been granted from the Trust Fund contrary to the provision.

(d) Public Finance Circulars

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(i) Paragraph 3.3(b) of the  
Circular No.PF/423 of 22  
December 2006

If there are any justifiable reasons for the maintenance of a particular Fund, report for the establishment of such Fund by an Act of Parliament, giving the reasons therefor, should be forwarded to the Department of Public Finance. But such action had not been taken in connection with the Management Trust Funds of the Economic Centres at Dambulla and Keppetipola.

(ii) Paragraph 4

Even though the Annual Budget prepared in accordance with the objectives of the Fund and approved by the Minister should be presented to the Director General of National Budget and the Director General of Public Finance, action in compliance therewith had not been taken in connection with the Management Trust Funds of the Economic Centres at Dambulla and Keppetipola.

(iii) Paragraph 4.2(b)

The Economic Centres at Dambulla, Keppetipola and Meegoda had not taken action to issues receipts for all moneys received to the Management Trust Fund.

(iv) Paragraph 4.2(d)

The Economic Centres at Dambulla, Keppetipola and Meegoda had not taken action to regularly reconcile the Bank Accounts and the books maintained and report the progress thereof to the Director General of Public Finance.

## 1:7 Performance

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The observations on the progress of the Ministry according to the Annual Action Plan for the year 2013 are given below.

## (a) Construction of the Co-operative Hospital, Anuradhapura

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The following observations are made in this connection.

- (i) The National Policy relating to the functions of the Ministry and the Departments and the Statutory Institutions under the Ministry should be implemented based on the functions assigned to the Ministry by the Gazette Extraordinary No.1651/20 dated 30 April 2010 and the Mahinda Chintana Way Forward and the National Policy expected to be implemented by the Government. Contrary to that provision, the modernization of the second floor of the Co-operative Hospital, Anuradhapura had been awarded to a construction company deviating from the Government Procurement Guidelines and without entering into an agreement.
- (ii) According to the file, the construction of the above Co-operative Hospital Building consisting 04 floors had been estimated for Rs.24 million. Even though a sum of Rs.7 million had been paid in the year 2012 to the construction company for the construction of the second floor, the money had not been utilized for the purpose.

## (b) Construction of the Willachchiya Rice Mill

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According to the Action Plan for the year 2012, approval of had been granted for the construction of the Willachchiya Rice Mill at a cost of Rs.5 million. Even though the Provincial Commissioner of Co-operatives of the North Central Province had made a request for taking legal action against the contractor and the Consultancy Firm for the weaknesses in the construction works, expenditure totalling Rs.8,953,571 had been incurred on the Project even during the year 2013 without the project being included in the Action Plan for the year 2013 and without paying attention to the request referred to above.

## 1:8 Deficiencies in the Operation of Bank Accounts

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According to the Bank Reconciliation Statement prepared by the Ministry for December 2013 action in terms of Financial Regulations 396(c) had not been taken on a cheque valued at Rs.20,126 not presented for payment over a period exceeding 06 months.

### 1:9 Transactions of Contentious Nature

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Certain transactions entered into by the Ministry had been of contentious nature. Particulars of several such instances revealed during the course of audit test checks are given below.

- (a) The Economic Centre, Ampara had been constructed on a land belonging to a Government institution without acquiring the land by the Ministry and the Secretary to the Ministry had not approved an estimate of Rs.32,952,951 for the purpose. The award of the contract and the consultancy service had been done deviating from the Government Procurement Procedure. Accordingly, the construction work had been awarded to a Government owned Construction and Engineering Company while the consultancy services had been awarded to a private Consultancy Firm without calling for competitive quotations. Written agreements had not been entered into in connection with the contracts awarded. The Economic Centre had been constructed on the Sathosa premises, land belonging to the Government, 193.65 perches in extent after the demolition of the building that existed on the land at a cost of Rs.395,570.
- (b) Management Trusts had not been established for the management of the Economic Centres at Ratmalana and Narahenpita, under the purview of the Ministry. The income of those Centres had not been credited to the State Revenue. The financial statements of those Centres had not been presented to audit even by 30 April 2014.
- (c) A stock of 1,016 kilograms of big onions valued at Rs.51,000 had been given in the year 2012 for a dansela held in connection with the Poson Ceremony. A sum of Rs.11,000 had been spent from the Management Trust in connection with entertainment expenses of 21 persons who did not attend a meeting held in the year under review.

### 1:10 Irregular Transactions

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Certain transactions entered into by the Ministry had been devoid of regularity and several such instances observed are given below.

#### (a) Deviation from the Procurement Guidelines Procedure

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An estimate of Rs.80 million had been prepared for the construction of the Kilinochchiya Economic Centre. The construction work and the preparation of designs and bills of quantities had been awarded to two private companies deviating from the provisions in the Government Procurement Guidelines in accordance with a policy decision of the Ministry. The following deficiencies were observed during the course of an audit test check carried out in that connection.

- (i) Even though the works had been awarded to the two companies concerned, agreements had not been entered into in that connection.

- (ii) A performance security had not been obtained to safeguard the procurement entity in case of the failure of the contractor to execute the contract properly.
- (iii) Payments had been made without retaining a certain amount covering the defect liability period of the contract.
- (iv) Action had not been taken even by 31 December 2013 to effect the acquisition of the land 6 acres 140 perches in extent on which the Centre was constructed. Even though a period of 2 ½ years had elapsed after the foundation laying, construction work had not been completed.

(b) Payment of Salaries and Wages without obtaining a Service  
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Even though the security services of the Dambulla Economic Centre had been awarded to a private security firm, the Centre had paid a sum of Rs.532,430 during the year 2012 as salaries and wages to two Watchers.

(c) Transactions without Authority  
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According to the letter No.5/2/1/10/3 dated 08 May 2006 of the Department of Attorney General, formal authority should be obtained for the payment of allowance for attending the meetings of the Trust. Nevertheless, allowances amounting to Rs.368,550 had been paid to the Members of the Trust for attending the meetings held by the Dambulla Economic Centre during the year under review.

1:11 Losses and Damage  
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The observations on the losses and damage revealed during the course of audit test checks are given below.

- (a) A loss of Rs.408,546 had been caused due to an accident to a motor vehicle of the Ministry and out of that a sum of Rs.393,676 had been received from the insurer. Action had not been taken even by 31 December 2013 either to recover the loss of Rs.14,744 from the persons responsible or for the write off of the amount. Action on the accident in terms of Financial Regulations 102 and 104 had not been taken to submit the preliminary report and the full report to the Chief Accounting Officer and the Auditor General.
- (b) A motor vehicle temporarily attached to a State Corporation on 08 February 2013 had met with an accident on 13 February 2013. Repairs to the motor vehicle had been carried out by the agents of the motor vehicle and total cost of Rs.1,011,452 comprising Rs.724,352 to the agents and Rs.287,100 to a private institute, had been incurred on repairs. A sum of Rs.81,600 had been received in that connection from the insurers. The full report thereon in terms of Financial Regulation 104(4) had not been furnished even by 31 October 2014. Action had not been taken either for the

recovery of the loss of Rs.929,852 from the parties responsible or for the write off of the loss.

- (c) According to the letters No.CIT/2/1/Sathosa Loss dated 08 August 2013 and 12 August 2013 of the Additional Secretary (Administration) an Internal Inquiry Board and the Ministry Level Inquiry Board had been appointed to report on the fire caused to the Ministry Office housed in the Sathosa Building on 31 July 2013. The report of the Internal Inquiry Board had not been furnished even by 26 April 2014 and the report of the Ministry Level Inquiry Board had been incomplete. As such the accuracy of the loss caused by the fire shown as Rs.677,047 could not be established.

#### 1:12 Management Weaknesses

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The following weaknesses were observed during the course of audit test checks.

##### (a) Ratmalana Economic Centre

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The following observations are made.

- (i) Even though the key money relating to the renting of the Ratmalana Economic Centre premises should be deposited in one lump sum, a portion of the key money had been recovered in five instances.
- (ii) Out of 128 trade stalls of the Ratmalana Economic Centre, no rent whatsoever had been recovered from 19 trade stalls. Two of those trade stalls had not been given on rent.
- (iii) The trade stall rents receivable from the year 2009 to 31 December 2013 amounted to Rs.11,699,990 and rent totalling Rs.4,688,750 had not been identified.

##### (b) Dambulla Economic Centre

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The following observations are made.

- (i) This Economic Centre had been constructed in the year 1999 as a cost of Rs.115,000,000 on a land acquired by the Ministry of Urban Development and Construction under a Notification published in the Gazette Extraordinary No.300/14 of 08 June 1984. Action had not been taken even by the end of the year under review for the transfer of the land to the Management Trust.
- (ii) A sum of Rs.56,400 had been paid in the year under review to a Security Services Company for 76 days on which security services had not been supplied.

- (iii) A balance of Rs.4,159,567 remained as at the end of the year 2012 in the Savings Account of the Management Trust and attention had not been paid for utilization of the money in an investment yielding income.

1;13 Human Resources Management

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Approved Cadre and Actual Cadre  
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The position of the cadre as at 31 December 2013 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	24	17	07
(ii)	Tertiary Level	05	02	03
(iii)	Secondary Level	269	177	92
(iv)	Primary Level	49	39	10
(v)	Others (Casual)/ Temporary/ Contract Basis)	06	04	02
	Total	353	239	114
		=====	====	====

The following observation is made in this connection.

Even though it was stated that officers had not been attached to other institutions, the information obtained from 05 other institutions revealed that 103 officers had been attached to this Ministry.

**2. Head 298 – Department of Measurement Units, Standards and Services  
Auditor General's Report – 2013**

**2.1 Scope of Audit**

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The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Measurement Units, Standards and Services for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was

issued to the Head of Department on 01 August 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

## **2.2 Responsibility of the Chief Accounting Officer and Accounting Officer for the Accounts and Reconciliation Statements**

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## **2.3 Audit Observation**

According to the Financial Records and the Books for the year ended 31 December 2013, it was observed that except for the effects of the general observations appearing at (a) to (d) and other major audit findings appearing in paragraphs 2.4 to 2.7 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Measurement Units, Standards and Services had been prepared satisfactorily.

### **(a) Non-maintenance of Registers and Books**

The Department had not maintained a Register of Fixed Assets in terms of the Treasury Circular No. 842 of 19 December 1978.

### **(b) Budgetary Variance**

Excess provisions had been made for two Objects and as such the savings after the utilization of provisions ranged between 19 per cent to 87 per cent of the net provisions relating those Objects.



**(c) General Deposit Account**

Action in terms of Financial Regulation 571 had not been taken on deposits older than two years amounting to Rs.44,445,215.

**(d) Reconciliation Statement of the Advances to Public Officers Account**

According to the Reconciliation Statement as at 31 December 2013 of the Advances to Public Officers Account Item No. 29801, the balances that remained outstanding as at that date totalled Rs.151,665 and the Department had failed to recover those outstanding balances.

**2.4 Good Governance and Accountability****Internal Audit**

The Department had not established an Internal Audit Unit and the Internal Audit had been done by the Internal Audit Unit of the line Ministry.

**2.5 Assets Management****Conduct of Annual Board of Surveys**

According to the Public Finance Circular No. 441 of 09 December 2009 as amended by the letter No. PF/Board of Survey/01 dated 17 December 2010 of the Director General of Public Finance, the Board of Survey for the year 2013 should be conducted and the reports thereon should be furnished to the Auditor General before 31 March 2014. Nevertheless, the Department had furnished the Report of the Board of Survey to audit only on 09 June 2014.

**2.6 Non-compliances****Non-compliances with Laws, Rules, Regulations etc.**

An instance of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks is given below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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Public Administration Circular No. 06/97

Even though the period of acting in a post should

of 03 February 1997

be limited to the maximum of 03 months, contrary to that provision, a Director had been appointed on acting basis to a vacant post which had not been filled from 05 May 2009 to the end of the year 2013.

## 2.7 Human Resources Management

### Approved Cadre and Actual Cadre

The position of the approved cadre and the actual cadre as at 31 December 2013 had been as follows.

Category of Employees -----	Approved Cadre -----	Actual Cadre -----	Number of Vacancies -----
(i) Senior Level	16	12	04
(ii) Tertiary Level	30	02	28
(iii) Secondary Level	202	115	87
(iv) Primary Level	95	63	32
	-----	-----	-----
	343	192	151
	=====	=====	=====

The following observation is made.

The Department had failed to fill 151 vacancies in the Department even by the end of the year under review.

### 3. Head 300 – Department of Food Commissioner -----

#### 3:1 Scope of Audit -----

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Food Commissioner for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 28 November 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and

reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

3:2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

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The Chief Accounting Officer and Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

3:3 Audit Observation

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According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observations appearing at (a) to (d) and other major audit findings appearing in paragraphs 3.4 to 3.13 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Food Commissioner had been prepared satisfactorily.

(a) Budgetary Variance

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The following observations are made.

- (i) Excess provisions had been made for 9 Objects and as such, the savings, after the utilization of provisions, ranged between 20 per cent to 88 per cent of the net provisions relating to the respective Objects.
- (ii) A difference of Rs.4,279 existed between the Treasury Computer Printouts and the Departmental books relating to one Object.

(b) General Deposit Account

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The following observations are made.

- (i) Action in terms of Financial Regulation 571 had not been taken on 200 deposits older than two years totalling Rs.43,887,570.
- (ii) According to the Departmental books the balance of General Deposit Account No.6000/0000/00/0015/0155/000 as at 31 December 2013 amounted to

Rs.8,755,872, whereas according to the Register of Deposits that amounted to Rs.2,137,047. As such, the Register of Deposits had not been updated regularly.

(c) Advances to Public Officers Account

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The following observations are made.

- (i) According to the Reconciliation Statement of the Advances to Public Officers Account Item No.30001 as at 31 December 2013, the balances that remained outstanding as at that date totalled Rs.2,976,004 and the Ministry had failed to recover those outstanding balances.
- (ii) The balance of the Advances to Public Officers Account as at 31 December 2013 according to the Departmental books amounted to Rs.19,461,366 whereas according to the Treasury books that balance amounted to Rs.19,144,525. The different of Rs.316,841 had not been reconciled in terms of Financial Regulation 427.
- (iii) Even though balance as at the end of the year under review according to the Reconciliation Statement amounted to Rs.19,461,366, that balance according to the Control Account maintained by the Department amounted to Rs.19,442,325. As such a difference of Rs.19,040 was revealed.
- (iv) Out of the sums totalling Rs.356,718 recoverable from 96 officers transferred from the Department as at 31 December 2013, a sum of Rs.770 only had been recovered from one officer even by 08 December 2014. The balance sum of Rs.355,948 had not been recovered even by 31 December 2013. Action in terms of Section 1.6 of Chapter XXIV of the Establishments Code and the National Budget Circular No.118 of 24 October 2004 had not been taken in this connection.
- (v) Out of the sum of Rs.1,171,302 recoverable from 78 officers who had retired as at 31 December 2013, a sum of Rs.535,240 only had been recovered from 04 officers. Action in terms of Sections 4.2.4 and 4.2.5 of Chapter XXIV of the Establishments Code had not been taken in connection with the sums totalling Rs.636,062 recoverable from the balance 74 officers.
- (vi) The loan balances recoverable in respect of 07 officers deceased from the year 1999 to the year 2013, totalled Rs.544,786. Out of that, loan balances amounting to Rs.397,366 existed over periods exceeding 05 years. Action in terms of Section 4.4 of Chapter XXIV of the Establishments Code had not been taken in this connection.
- (vii) The Department had failed to recover the loan balances totalling Rs.736,234 recoverable from 15 officers interdicted up to 31 December 2013.

- (viii) Action in terms of Sections 4.5 and 4.6 of Chapter XXIV of the Establishments Code had not been taken in connection with the loan balances totalling Rs.1,051,474 recoverable from 15 officers who had vacated posts.

(d) Winding –up of an Advance Account Activity  
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Even though a period of 21 years had elapsed in the winding-up of the Advance Account Activity Item No.7000/0/0/0300/0003, receivable balances totalling Rs.339,769,709, balances for settlement totalling Rs.509,651,145 and assets not finalized totalling Rs.169,870,060 existed.

In view of the following major audit observations, it was not possible to express an opinion on the Winding-up Account.

- (i) Even though a sum of Rs.600,000 had been received on 05 June 2009 on account of the motor vehicle transferred on surplus basis to the then Ministry of Co-operatives action had not been taken to eliminate from the accounts the value of that asset and the accumulated depreciation provision thereon.
- (ii) Even though it was pointed out in the audit report for the preceding year that action had not been taken to eliminate from the accounts the cost of the Boossa Stores Complex transferred to the Sri Lanka Navy assessed at Rs.4,000,000 and to identify and eliminate cost of Rs.174,445 credited to the Furniture and Equipment Disposal Account, and according to the letter No.IA/408/14 of 17 February 2009 it was stated action thereon would be taken in consultation with the Treasury such action had not been taken even by 31 December 2013.
- (iii) The cost and the accumulated depreciation relating to 03 Assets Disposal Accounts totalling Rs.27,446,023 shown in the Statement of Settlement of Liabilities of the Statement of Accounts had not been identified and adjusted.
- (iv) Even though this Advance Account remains in the Winding-up stage since January 2005, courses of action had not been taken in terms of the Financial Regulations even by 31 December 2013 for the write off of the unsettled loan balances amounting to Rs.3,772,135 that existed as at that date and the working losses amounting to Rs.4,612,880,682 from the year 1985 to the year 2004.
- (v) The difference of Rs.65,425 that existed in carrying forward the stock shortages debtors balance amounting to Rs.48,216,458 included in current assets as at 31 December 2012 to the year 2013 remained without being changed even during the year under review. As such the stock shortages debtors balance had been overstated by a sum of Rs.65,425.

- (vi) According to the schedule furnished to audit, the co-operatives debtors balance at the end of the year amounted to Rs.200,061,968 and that had been shown in the financial statement as Rs.199,141,138 and as such a difference of Rs.915,830 existed.
- (vii) The arrears of stores rent recoverable as at 31 December 2013 from 63 stores rented out to outside institutions by the Department of Food Commissioner amounted to Rs.69,765,511. Even though 23 of those stores had been recovered as at present, the arrears of rent recoverable in respect of these stores amounting to Rs.31,636,229 had not been recovered even by 10 September 2014.
- (viii) Three motor vehicles valued at Rs.1,072,198 had been handed over to the Ministry of Agricultural Development and the then Ministry of Co-operative in the years 2002 and 2003. Even though a period exceeding 11 years had elapsed since handing over action had not been taken for the recovery of the transfer value.
- (ix) The charges for electricity and water recoverable as at 31 December 2013 in connection with the buildings leased out to 10 institutions and individuals totalled Rs.2,527,004.
- (x) The recovery of the debtors balances as at 31 December 2013 amounting to Rs.338,697,511 shown in the Winding-up Accounts had been at a very weak level. The following deficiencies were observed in that connection.
- According to the financial statements, the debts recoverable from Co-operative Societies as at 01 January 2013 for the issue of rice, wheat flour, sugar, food stamps and kerosene stamps on credit basis to 179 Multipurpose Co-operative Societies in 22 Districts amounted to Rs.199,366,138. Out of that a sum of Rs.220,000 only had been recovered in the year under review. The debt recovery represented 0.09 per cent and as such the debt recovery had been at a weak level.
  - Out of the stock shortages debtors balances as at 01 January 2013 totalling Rs.48,216,459 a sum of Rs.135,176 only had been recovered during the year and the recovery represented 0.28 per cent. The debtors balance further recoverable as at 31 December 2013 amounted to Rs.48,081,283.
  - The other debtors balances existing over a period exceeding 20 years as at 31 December 2013 totalled Rs.1,992,362 and no recoveries whatsoever out of that had been made during the year under review.
  - The debtors balance remaining outstanding over periods from 12 years to 19 years from the Government Ministries, Departments and Corporations

amounted to Rs.89,203,828. No recoveries whatsoever had been made from that during the year under review.

- No recoveries whatsoever had been made during the year under review from a sum of Rs.19,713,090 recoverable from 74 vacated post or dismissed or interdicted Store Keepers.
- The Department had failed to make any recoveries whatsoever from a sum of Rs.4,195,442 recoverable from 53 storekeepers whose whereabouts are not traceable and the storekeepers debts totalling Rs.9,852,571 of arrears of stock surcharge balance recoverable from 40 storekeepers transferred,
- Even though the Food Commissioner had, by his letter dated 24 June 2009 informed that in terms of the judgment on the case No.1464/2002 filed by an officer in Court of Appeal against the imposition of a surcharge, the surcharging of Rs.2,382,580 had been dismissed. Action had not been taken even during the year under review to adjust or disclose that in financial statements.

- (xi) Thirteen items of account amounting to Rs.1,117,051,713 could not be satisfactorily vouched in audit due to the unavailability of required evidence such as detailed schedules, Boards of Survey Reports, age analysis and confirmation of balances.

#### 3:4 Good Governance and Accountability

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##### 3:4:1 Internal Audit

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The Department had not established an Internal Audit Unit. Even though the Internal Audit Division of the Ministry of Co-operatives and Internal Trade had prepared an Internal Audit Programmes for the Department, reports had not been furnished by carrying out an internal audit.

#### 3:5 Assets Management

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The following deficiencies were observed during the course of an audit test check of the assets of the Department.

##### (a) Idle and Underutilized Assets

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The following observations are made.

- (i) The total capacity of 04 stores in the Veyangoda Stores Complex repaired at a cost of Rs.18,292,550 in the year 2011 amounted to 10,800 metric tons of paddy

and only 541 metric tons of paddy had been stored in those stores at the time of audit on 14 October 2013.

- (ii) Even though 4,500 metric tons of rice can be stored in the scientific store at Veyangoda, only 618 metric tons of rice had been stored in the store at the time of audit on 14 October 2013. That represented 14 per cent of the total capacity of the stores.

(b) Conduct of Annual Board of Survey  
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Even though the Report of the Board of Survey had been furnished to audit on 21 March 2014, action in terms of Financial Regulation 858 had not been taken on the unusable goods pointed out in that report.

(c) Assets given to External Parties  
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Forty six stores of the Department with a capacity of 153,275 metric tonnes had been given irregularly to external parties.

3:6 Non-compliances  
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Non-compliance with Laws, Rules and Regulations  
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Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analysed below.

Reference to Laws, Rules and Regulations -----	Non-compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulations 34	Even though the Department had forwarded on 02 July 2012 a Project proposal called Construction of Humidity Controlled Scientific Stores II estimated at Rs.188.6 million for the purpose of storage of buffer stocks of rice without using chemicals. But Financial Regulation 34 does not include provisions for such projects.
(b) Financial Regulation 373	According to the Treasury Books as at 31 December 2013 a balance for settlement did not exist in the Imprest Account whereas according to the Winding-up Accounts of the Advance Account the balance of the Imprest Account as at 31



December 2013 amounted to Rs.24,992,879. This balance is existing from the commencement of the winding-up of the Advance Account and no action whatsoever had been taken up to 31 December 2013 to identify the balance.

- (c) Financial Regulation 518(7)(b) Even though the work that remains to be done in connection with the winding-up accounts of the Advance Account Activity and the reason, if any, for the delay in its completion should be given in the Foreword of the Winding-up Accounts, it contained a statement that a specific date could not be stated.
- (d) Financial Regulation 756 A Board of Survey of the 04 items of assets valued at Rs.169,285,130 had not been conducted as at 31 December 2013 in terms of the Financial Regulation.
- (e) Financial Regulation 1645 Even though the Monthly Performance Summaries should be prepared according to the Daily Running Charts, such Summaries had not been prepared in connection with all motor vehicles of the Department.

### 3:7 Performance

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The observations on the progress of the Department according to the Action Plan for the year 2013 are given below.

#### Activities contrary to Key Functions

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Even though the Department of Food Commissioner was re-established in the year 2008 with the objective of maintaining a buffer stock of 100,000 metric tonnes of rice, contrary to such objective 89 per cent of the stores belonging to the Department had been given to other institutions on rent basis or without charging rent.

### 3:8 Deficiencies in the Operation of Bank Accounts

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#### Balances to be Adjusted

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An analysis of the adjustments included in the Bank Reconciliation Statements prepared by the Department for December 2013 revealed that action in terms of Financial Regulations had not been taken on unrealized deposits amounting to Rs.1,303,065 and cheques valued at Rs.1,300,065 not presented for payment older than 03 years.

### 3:9 Transactions of Contentious Nature

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The National Housing Development Authority had transferred 352 houses in the Dhanyagama Housing Complex, Trincomalee to the Department of Food Commissioner in the year 1982. The Department had given those houses on rent to the employees of a Housing Company and the employees of the Public and Private Sectors. Out of those houses, 33 houses had been sub-leased without handing them over to the Department. In terms of Section 6 of the Housing (Special Provisions) Act, No.7 of 1969, the Secretary to the Ministry of Public Administration had transferred the possession of the Government buildings belonging to the Department of Food Commissioner to the Food Commissioner. The unauthorized occupants could not be evicted as the title to that land had not been transferred to the Food Commissioner up to date.

### 3:10 Irregular Transactions

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Certain transactions entered into by the Department had been devoid of regularity. Several such instances observed are given below.

#### (a) Deviation from the Government Procurement Guidelines Procedure

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The following observations are made in this connection.

- (i) A University Professor had been recruited for consultancy services at Rs.1,390,157 without inviting quotations for the supply of consultancy services for the construction of Stage II of the Store at Veyangoda with Natural Air Circulation Methodology, from the Consultancy Firms or individuals with experience in the related field. That Consultant had not furnished his recommendations on the feasibility proposals, technological equipment to be selected, service suppliers and suitable contraction.
- (ii) The contract valued at Rs.23,169,285 for the above construction work had been awarded to a Public Corporation deviating from the Government Procurement Guidelines, and that Corporation had awarded the contract to a private contractor for the same amount. The Consultancy Firm which had examined the contract had reported that the position with regard to the contract is unsatisfactory. Instead of the Public Corporation which required the contract agreement, the CWE Construction Company had submitted bills and obtained the money.
- (iii) The contract for renovation of 04 stores of the District Granary Veyangoda at a cost of Rs.18,292,550 had been awarded to a Public Corporation deviating from the Procurement Procedure. Nevertheless, action had not been taken to accept the contract in writing by obtaining a report from a Technical Officer.

(b) Transactions without Authority  
-----

Even though an estimate of Rs.188.6 million had been prepared for the Project for the Construction of Scientific Stores, the approval for that in terms of the Procurement Guidelines had not been obtained from the Cabinet of Ministers. A feasibility study also had not been carried out for the Project. The contract for the scientific store constructed at an estimate of Rs.4.9 million had been awarded to a selected contractor deviating from the Procurement Procedure.

3:11 Losses and Damage  
-----

The observations on losses and damage revealed during the course of audit test checks are given below.

- (i) Even though the total capacity of the scientific store constructed under Stage I is 4,500 metric tonnes, only 652 metric tonnes had been kept in storage even by the end of the year 2013. The loss sustained by the Department due to the sale of rice at prices below the purchase and storage cost had been Rs.7,467,112.
- (ii) The installation of a weighbridge at the District Granary at Veyangoda at a cost of Rs.4,500,000 had been awarded to a Company and that amount included the cost of civil constructions for installation of the weighbridge amounting to Rs.1,205,357. The concreted slopes on either sides of the weighbridge had sunk and the Civil Engineers had not obtained a report on its deterioration from downward cracks developing due to lorry movements. Further the weighbridge is rusted due to lack of a roof cover and proper maintenance.

3:12 Uneconomic Transactions  
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Even though the scientific stores had been introduced with the objective of supply of unpolluted quality rice fit for consumption, rice stored in the scientific store had been fumigated due to weevil infestation. It was observed all mechanical parts of the store had been subject to frequent repairs as they were inoperative.

3:13 Human Resources Management  
-----Approved Cadre and Actual Cadre  
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The position of the cadre as at 31 December 2013 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
-----	-----	-----	-----	-----
(i) Senior Level	05	03	02	--
(ii) Tertiary Level	02	--	02	--
(iii) Secondary Level	118	53	65	--
(iv) Primary Level	126	64	72	10
(v) Others (Casual)/ Temporary/ Contract Basis)	--	01	--	01
Total	251	121	141	11
	=====	=====	=====	=====

The following observation is made in this connection.

- (i) The Department had failed to fill 141 vacancies by the end of the year under review.
- (ii) The Department had not taken action to obtain the formal approval for in additional cadre recruited.

#### 4. Head 301 – Department of Co-operative Development

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##### 4:1 Scope of Audit

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The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Department of Co-operative Development for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Head of Department on 03 October 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

4:2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

-----

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

4:3 Audit Observation

-----

According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observations appearing at (a) to (c) and other major audit findings appearing in paragraphs 4.4 to 4.11 herein, the Appropriation Account, and the Reconciliation Statement of the Department of Co-operative Development had been prepared satisfactorily.

(a) Budgetary Variance

-----

The following observations are made.

- (i) The entire net provision of Rs.100,000 made for one Object had been saved.
- (ii) Excess provisions had been made for 02 Objects, and as such, the savings after the utilization of provisions, amounted to 12 per cent and 28 per cent of the net provisions relating to those Objects.
- (iii) In terms of Financial Regulation 10, financial provision for personal emoluments should be made on the basis of the actual needs. Nevertheless, out of the provision of Rs.21,780,000 for the Object on Salaries and Wages for the year under review, a sum of Rs.1,030,700 had been transferred under Financial Regulation 66 to another Object.
- (iv) The Department had not prepared a Register of Liabilities in terms of Financial Regulation 214.

(b) General Deposit Account

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Action in terms of Financial Regulation 571 had not been taken on 75 deposits older than 2 years amounting to Rs.8,117,167.

## (c) Reconciliation Statement of the Advances to Public Officers Account

-----  
 The following observations are made.

- (i) According to the Reconciliation Statement of the Advances to Public Officers Account No.30101, as at 31 December 2013 the balances that remained outstanding as at that date totalled Rs.1,610,242 and the Department had failed to recover those outstanding balances.
- (ii) A difference of Rs.20,774 existed between the Control Account and the total of the Individual Balances Classification Summary. Even though adjustments had been made for the rectification of the difference, a further difference of Rs.13,765 had arisen. Even though this matter was pointed out by audit queries the officers responsible had failed to identify and settle the difference, despite the elapse of 07 to 27 years.
- (iii) The recovery of festival advances totalling Rs.205,000 granted to 41 officers on 01 April of the year under review had been commenced in August 2013 after a delay of 03 months contrary to Section 3:7 of Chapter XXIV of the Establishments Code. As such, out of Rs.164,000 recoverable in the year under review, a sum of Rs.102,500, only had been recovered.
- (iv) According to the Reconciliation Statement presented, action in terms of the National Budget Circular No.118 of 11 October 2014 had not been taken in connection with loan balances amounting to Rs.224,815 recoverable as at 31 December 2013 from 22 officers who had been transferred out. Out of those balances, sums of Rs.2,700 and Rs.215,547 had been existing over periods ranging from 5 to 10 years and over 13 years respectively.
- (v) The loan balances amounting to Rs.662,019 recoverable as at 31 December 2013 from three officers who had retired had not been recovered from the pension gratuities in terms of Sections 4.2.4 and 4.2.5 of Chapter XXIV of the Establishments Code. Out of that balance, sums of Rs.548,788 and Rs.44,394 had been outstanding over periods ranging from 5 to 13 years and over 13 years respectively.
- (vi) The balances recoverable as at 31 December 2013 from 11 interdicted officers and 10 officers who had vacated posts totalled Rs.524,651. These balances existed over a period exceeding 10 years. The Department had not taken action in terms of Sections 4.5 and 4.6 of Chapter XXIV of the Establishments Code for the recovery of these balances from the sureties.

#### 4:4 Good Governance and Accountability

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##### 4:4:1 Annual Action Plan

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Even though the Department should prepare an Annual Action Plan in terms of paragraph 1.4.1 of the letter No.PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance, the Annual Action Plan prepared by the Department for the year under review had not been prepared in accordance with the circular.

##### 4:4:2 Internal Audit

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Even though the Internal Audit Unit of the line Ministry had prepared the Internal Audit Programmes, internal audits in accordance therewith had not been carried out and reports furnished to audit.

#### 4:5 Assets Management

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##### Conduct of Annual Boards of Survey

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Even though the Annual Board of Survey for the year 2013 should have been conducted and the reports thereon should have been furnished to the Auditor General before 15 March 2014 in terms of the Public Finance Circular No.441 dated 09 December 2009 as amended by the letter No.PF/FS/Board of Survey/01 of 17 December 2010 of the Director General of Public Finance, the Department had furnished the reports of the survey to audit only on 02 April 2014.

#### 4:6 Non-compliances

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##### Non-compliance with Laws, Rules and Regulations

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Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
-----		
Financial Regulation 188(2)	17,043	When moneys are banked, the officers responsible should ensure they receive acknowledgements for them from

Banks by verifying the credits in the Bank Statements. Nevertheless, it had not been so done in connection with two cheques valued at Rs.17,043 deposited in the year 2010.

(b) National Budget Circulars

Paragraph 01 of the National Budget Circular No.150 of 07 December 2010.	1,321,678	A sum of Rs.1,321,678 had been spent on repairing 03 old motor vehicles of the Department without taking action in terms of the Circular.
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4:7 Weaknesses in the Implementation of Projects

Instances revealed during the course of audit test checks of projects abandoned without commencing, projects abandoned without being completed and project delays are given below.

- (a) Even though the Department had planned for the commencement of 40 Mega Co-op City Super Markets through Multipurpose Co-operative Societies in the year 2010, only 14 Markets had been commenced even by 31 August 2014. Two out of those had been closed down by 31 August 2014.

Nevertheless, the commencement of 12 out of the above 40 Mega Co-op City Super Markets planned for commencement had been stopped due to various reasons. As such a sum of Rs.1,656,462 spent in the year 2011 in making plans for 08 of those had become fruitless.

- (b) Even though plans had been made for the establishment of a Co-operative Consumer Sector Promotion Unit in the Department in the year under review at an estimate of Rs.17 million, the commencement of that Unit had not been carried out even by 31 August 2014 due to the inability to recruit a suitable Marketing Consultant for the purpose. Nevertheless, the Department had spent a sum of Rs.111,423 in the year under review for the publication of newspaper advertisements and conducting the interview for the recruitment of a person for the above post.

- (c) The following projects which should have been implemented in the year under review had not been implemented even by 31 August 2014.

(i) Appointment of a Committee on Utilization of Capital.

(ii) Conduct of Accounts Committees at Departmental level on the audit of Co-operative Societies.

(iii) Implementation of Business Development Projects

(iv) Establishment of Farmers Co-operative Societies.



## 4:8 Performance

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The observations on the progress according to the Annual Action Plan for the year 2013 are given below.

## Action not taken according to the Annual Action Plan

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It was observed that action in accordance with the Action Plan had not been taken in the following instances.

- (a) Even though the Statistical Report for the year 2012 should have been printed and distributed during the year under review, the distribution thereof had been completed in June 2014.
- (b) According to the Action Plan, meetings of Provincial Commissioners should be held once in every two months. But only two such meetings had been held during the year under review at a cost of Rs.85,410. As such the provincial co-ordination activities had been at a weak level.
- (c) Even though the Annual Report for the year 2012 should have been tabled in Parliament during the year under review according to the Action Plan, such reports for the years 2012 and 2013 had not been tabled in Parliament even by 31 August 2014.
- (d) Provision amounting to Rs.680.4 million had been made in the year under review for the activities of the Revolving Fund for the Purchase of Consolidated Essential Goods established in the year 2010 for the maintenance of stable prices for several essential commodities. The Department had not taken action in connection with the determination of prices of essential commodities through the National Pricing Committee, providing information of the prices to the Provincial Co-operative Associations and subjecting those activities to continuous supervision and direction in order to achieve the objectives of the Fund as set out in the Action Plan.

## 4:9 Transactions of Contentious Nature

-----

Even though the Ministry had made provision amounting to Rs.1.5 million for the Conference of the Provincial Ministers of Co-operatives and the Secretaries which should be held by the line Ministry, the Department had spent a sum of Rs.279,038 during the year under review.

Even though the Department had spent a sum of Rs.265,249 on the preliminary work of the Conference of the preceding year which had not been held, the Ministry had informed that the expenditure cannot be reimbursed.

## 4:10 Unresolved Audit Paragraphs

Reference to the audit paragraphs relating to the Department included in the Reports of the Auditor General on which follow-up action had not been completed is given below.

Reference to the Report of the Auditor General		Subject under Reference
Year	Paragraph Number	
2012	1.7(iv)	Audit of Co-operative Societies
	1.8(a)	Recovery of loans from a Consumer Society
	1.9	Recovery of loans granted from the Revolving Fund to the Provincial Commissioners of Co-operatives and other institutions in terms of the agreements.

## 4:11 Human Resources Management

## Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2013 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i)	Senior Level	09	06	03
(ii)	Tertiary Level	07	01	06
(iii)	Secondary Level	105	91	14
(iv)	Primary Level	20	16	04
	Total	141	114	27

The following observation is made.

The Department had not taken action to fill 27 vacancies even by the end of the year under review.

5. Head 302 – Co-operative Employees Commission  
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5:1 Scope of Audit  
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The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Co-operative Employees Commission for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution in the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Commission on 19 November 2014. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

5:2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements  
-----

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

5:3 Audit Observation  
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According to the Financial Records and the Books for the year ended 31 December 2013 it was observed that except for the effects of the general observations appearing at (a) and (b) and other major audit findings appearing in paragraphs 5.4 to 5.10 herein, the Appropriation Account, and the Reconciliation Statement of the Co-operative Employees Commission had been prepared satisfactorily.

(a) Budgetary Variance  
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The following observations are made.

- (i) Excess provisions had been made for 06 Objects, and as such the savings after the utilization of provisions, ranged between 33 per cent to 86 per cent of the net provisions relating to the respective Objects.
- (ii) Provision amounting to Rs.360,000 had been made for the Object on Transport in the Annual Budget Estimates. Out of that provision, a sum of Rs.170,000 had been transferred during the year under review in terms of Financial Regulation 66 to a Capital Object and a Recurrent Object. Even though a sum of Rs.190,000 remained in the Object during the year, it had not been utilized.

(b) Reconciliation Statement of the Advances to Public Officers Account  
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Even though the balance as at the end of the year according to the Departmental books of the Advances to Public Officers Account amounted to Rs.2,103,090, that amounted to Rs.2,142,051 according to the Treasury books. Even though a difference of Rs.38,961 existed, that difference had not been reconciled between the Departmental books and the Treasury books in terms of Financial Regulation 427.

5:4 Good Governance and Accountability  
-----5:4:1 Annual Procurement Plan  
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The Annual Procurement Plan in terms of the National Budget Circular No.128 of 24 March 2006 had not been prepared even by 31 December 2013.

5:4:2 Internal Audit  
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Even though the Internal Audit Unit of the Ministry of Co-operatives and Internal Trade had prepared the Internal Audit Programmes, an internal audit in accordance therewith had not been carried out and reports furnished to audit.

5:5 Assets Management  
-----Conduct of Annual Boards of Survey  
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According to the Report of the Board of Survey, 14 categories of goods had been recommended for sale by auction as those are unusable. But the necessary courses of action thereon had not been taken even up to 30 June 2004.

## 5:6 Performance

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The observations on the progress of the Commission according to the Annual Action Plan for the year 2013 are given below.

## Key Functions not executed adequately

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Several key functions of the Commission which had not been executed adequately are given below.

- (i) Even though the Committees for amending the Co-operative Employees Commission Act, No.12 of 1972 had been appointed on 11 January 2012 and 05 October 2012, action had not been taken even by 30 June 2014 to amend the Act by obtaining the approval of the Cabinet of Ministers for the Draft Bill prepared.
- (ii) Even though the introduction of a new pension scheme for the co-operative employees had been a key function proposed in the year 2006, the Commission had failed to implement that activity even by 30 June 2014.
- (iii) A Committee of five persons had been appointed on 04 January 2013 for the formulation of the Co-operative Disciplinary Procedure and the Commission had failed to prepare the final report on that even by June 2014.

## 5:7 Transactions of Contentious Nature

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A sum of Rs.500,000 had been financial through the Co-operative Campaign Capacity Development Project for the launch of the printed Draft of Co-operatives Disciplinary Procedure. The reports on the expenditure incurred had not been forwarded to the Project concerned and the particulars of that expenditure were not available with the Commission.

## 5:8 Unresolved Audit Paragraphs

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Reference to the audit paragraphs relating to the Co-operative Employees Commission included in the Reports of the Auditor General on which follow-up action had not been completed is given below.

Reference to the Report of the Auditor General		Subject under reference
Year	Paragraph Number	
2012	1.6	Failure to amend the Co-operative Employees Commission Act, No.12 of 1972 and implement the Pension Scheme.
	1.7(i) (ii)	Failure to fill vacancies of employees and

approved a permanent officer to the posts of Secretary.

1.4.4

Failure to furnish reports by carrying out an internal audit.

5.9 Management Weaknesses

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Daily running charts and vehicle log books had not been properly maintained with regard to the pool vehicles of the Commission.

5:10 Human Resources Management

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Approved Cadre and Actual Cadre  
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The position of the cadre as at 31 December 2013 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i)	Senior Level	03	01	02
(ii)	Secondary Level	14	11	03
(iii)	Primary Level	06	02	04
		----	----	----
	Total	23	14	09
		==	==	==

The following observation is made.

- (i) The Commission had not taken action to fill 09 vacancies even by the end of the year under review.
- (ii) Even though a Senior Assistant Secretary of the line Ministry had been appointed to the post of Secretary to the Commission from the year 2013, no action had been taken from the year 2008 to 30 June 2014 to appoint a Secretary on permanent basis to the post.