

Report of the Auditor General on Head 116 Ministry of Co-operatives and Internal Trade and the Departments under the Ministry – Year 2014

Paragraphs 1 and 2 of this Report contain the general information on the Accounts of the Ministry and the Departments under the Ministry and the Audit Observations on each Head appear in paragraph 3 onwards.

1. Departments under the Ministry

Head	Department
298	Department of Measurement Units, Standards and Services
300	Department of Food Commissioner
301	Department of Co-operative Development
302	Co-operative Employees Commission

1.1 Scope of Audit

The audit of the Appropriation Accounts, Liquidation Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Ministry of Co-operatives and Internal Trade and the Departments under the Ministry appearing in paragraph 1 above for the year ended 31 December 2014 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 Reports for the year under review was issued to the Chief Accounting Officer and the Accounting Officer on the undermentioned dates. The audit observations, comments and findings on the accounts and 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.

Head	Ministry/ Department	Date of Issue of Management Audit Report
116	Ministry of Co-operatives and Internal Trade	31.08.2015
298	Department of Measurement Units, Standards and Services	01.07.2015
300	Department of Food Commissioner	31.08.2015
301	Department of Co-operative Development	29.07.2015
302	Co-operative Employees Commission	13.07.2015

1.2 Responsibilities of the Chief Accounting Officer and the Accounting Officers for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officers are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts, Liquidation Accounts of Advance Accounts and 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. Accounts

2.1 Appropriation Accounts

Total Provision and Expenditure

The total net provisions made for the Ministry and 04 Departments under the Ministry amounted to Rs.1,995.18 million and out of that Rs.1,774.09 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provisions of the Ministry and Departments ranged between to Rs.0.72 million to Rs.200.13 million and represented 3.16 per cent to 13.97 per cent of the net provisions. Details appear below.

Head	As at 31 December 2014			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
116	1,433.05	1,233.92	200.13	13.97
298	302.36	292.81	9.55	3.16
300	174.71	167.72	6.99	4.00
301	71.98	68.78	3.70	5.14
302	13.08	12.36	0.72	5.50
Total	1,995.18	1,774.09	221.09	11.08

2.2 Advance Accounts

2.2.1 Advances to Public Officers Accounts

Limits Authorized by Parliament

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

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
11601	7.50	7.26	3.40	4.25	30.00	19.98
29801	8.00	3.40	3.00	3.48	35.00	18.38
30001	7.50	3.75	3.70	3.87	42.00	18.29
30101	5.00	2.29	2.00	2.25	20.00	12.14
30201	1.50	0.74	0.30	0.89	4.00	1.94

2.2.2 Advance Accounts under Liquidation

Decisions for liquidation of two Advance Accounts of a Department under the Ministry by 01 January 2003 and 01 January 2005 have been taken. Details are given below

Department	Advance Accounts Activity	Accounts Number	Date of Decision to Liquidate	Time taken up to 31 December 2014 (years)
Department of Food Commissioner	(i) Kitchen and Bakery Advance Account	7000/0/0/0300/0002	01 January 2003	12
	(ii) Food Purchase and Distribution Advance Account	7000/0/0/0300/0003	01 January 2005	10

2.3 Imprest Accounts

The Imprest balances of the Ministry and 03 Departments under the Ministry as at 31 December 2014 totalled Rs. 73.27 million. The Co-operative Employees Commission did not have an Imprest balance on that date. Details appear below.

Head	Ministry / Department	Account Number	Balance as at 31 December 2014 Rs. Millions
116	Ministry of Cooperatives and Internal Trade	7002/0000/00/0046/0014/000	31.58
298	Department of Measurement Units Standards and Services	7002/0000/00/0327/0014/000	8.28
300	Department of Food Commissioner	7002/0000/00/0107/0013/000	32.03
301	Department of Cooperative Development	7002/0000/00/0108/0014/000	1.38
	Total		73.27 =====

2.4 General Deposit Accounts

The balances of Deposit Accounts of the Ministry and two Departments under the Ministry as at 31 December 2014 totalled Rs. 189.43 million. Details appear below.

Head	Ministry/ Department	Deposit Account Number	Balance as at 31 December 2014 Rs. Million
116	Ministry of Cooperatives and Internal Trade	6000/0000/00/0015/0029/000	25.76
300	Department of Food Commissioner	6000/0000/00/0013/0023/000	76.67
		6000/0000/00/0013/0023/000	64.16
		6000/0000/00/0015/0155/000	8.36
301	Department of Cooperative Development	6000/0000/00/0015/0156/000	0.19
		6000/0000/00/0006/0080/000	14.29
	Total		189.43 =====

2.5 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2014, it was observed that subject to the audit observations appearing in the Management Audit Reports referred to in paragraph 1.1, the Appropriation Accounts, Advance Accounts under liquidation and the Reconciliation Statements of the Ministry of Cooperatives and Internal Trade and the Departments under the Ministry have been prepared satisfactorily. The material and important observations out of the observations included in those Management Audit Reports appear in paragraph 3 to 7 herein.

3. Head 116 – Ministry Co-operatives and Internal Trade

3.1 Presentation of Accounts

The financial statements of the Economic Centers Management Trust Funds functioning under the Ministry for the years indicated below had not been presented for audit even up to 31 May 2015.

	Name of Economic Centre	Years for which Financial Statements were not furnished for Audit
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(i)	Meegoda	From 2003 to 2011
(ii)	Narahenpita	From 2008 to 2012 and 2014
(iii)	Ratmalana	From 2009 to 2012 and 2014
(iv)	Welisara	From 2003 to 2011 and 2013 and 2014
(v)	Veyangoda	From 2007 to 2009 and 2014
(vi)	Keppetipola	From 2001 to 2011 and 2013 and 2014
(vii)	Dambulla	From 1999 to 2011
(viii)	Nuwara-Eliya	From 2006 to 2014
(ix)	Kurunduwatta	From 2012 to 2014
(x)	Kandehandiya	From 2004 to 2014
(xi)	Thambuththegama	From 2005 to 2011 and 2014
(xii)	Embilipitiya	From 2003 to 2014
(xiii)	Piliyandala	From 2010 to 2014

3.2 Lack of Evidence for Audit

The following observations are made.

- (a) The agreement on rent of buildings entered into between the Ministry and the Sathosa had not been furnished to audit.
- (b) The evidence relating to 22 items of assets totalling Rs. 223,936,355, an item of liability amounting to Rs. 130,653 and 05 items of expenditure amounting to Rs. 2,009,861 of the Dambulla, Meegoda and Veyangoda Economic Centres had not been furnished and as such those could not be satisfactorily vouched in audit.

3.3 Appropriation Account

3.3.1 Budgetary Variance

The following observations are made.

- (a) The entire provisions totalling Rs. 167,180,000 made for 03 Recurrent Objects and 05 Capital Objects had been saved
- (b) Excess provisions totalling .Rs. 6,468,900 had been made for 06 Objects and as such the savings, after the utilization of provision totalling Rs. 2,479,352, ranged between 25 per cent to 85 per cent of net provisions relating to the respective Objects.
- (c) Even though provision of Rs. 10 million from other Objects had been transferred to the Objet 116-01-03-01-1503, the entirety of that provision had been saved.
- (d) A sum of Rs. 41,610 spent from August to December 2013 for the purchase of newspapers for the Media Division of the Minister had been brought to account under the stationery and office requisites.

3.4 Imprest Account

Even though the letter No. RES/IMPREST/1 dated 04 December 2013 of the Department of Treasury Operations had instructed that the Imprest balance of Rs.31,570,549 should be settled before 31 December 2013, that Imprest balance had not been settled even by 29 April 2015.

3.5 General Deposit Account

The following observations are made

- (a) The balance of Rs. 1,678,458 in the old General Deposit Account No. 6000/0000/00/0003/0183/000 had been transferred to the General Deposit Account No. 6000/000/00/0015/0029/000 on 26 August 2011 in accordance with the State Accounts Circular No. 218/2011 dated 03 June 2011. Even though paragraph 2 of that circular instructed that deposits older than 02 years should be credited to the State Revenue, the balance sum of Rs. 1,678,458 transferred on 26 August 2011 had not been transferred to State Revenue even by 17 June 2015.

- (b) A sum of Rs. 1,198,604 retained for the Value Added Tax of Economic Centers existing from 31 December 2009 had been retained in the General Deposit Account without being remitted to the Commissioner General of Inland Revenue.

- (c) Even though a sum of Rs. 15 Million out of the total sum of Rs. 15,408,138 that remained in the Deposit Account as at 31 December 2014 should have been remitted to the Paddy Marketing Board in connection with the export of rice, that amount had been retained in a Bank Current Account for about 11 months without being remitted to the Paddy Marketing Board.

3.6 Reconciliation Statement of the Advances to Public Officers Account

The following observations were made at a sample check of the Reconciliation Statement as at 31 December 2014 of the Advances to Public Officers Account Item No. 11601

- (a) Action in terms of Sections 4.2.4 and 4.2.5 of Chapter XXIV of the Establishments Code had not been taken on the sum of Rs. 4,261 further receivable from an officer who retired over 9 years ago.

- (b) The Ministry had not taken action even up to 30 April 2015, the date of audit for the recovery of two loan balances totalling Rs. 62,776 recoverable from 02 officers who had vacated posts over 5 years and 12 years ago.

- (c) Action in terms of Chapter XXIV of the Establishments Code had not been taken even up to 31 December 2014 for the recovery of the loan balance of Rs. 149,665 recoverable from a deceased officer remaining over a period of 2 years.

3.7 Assets Management

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

(a) Conduct of Board of Survey

Even though the Board of Survey Report of the Ministry for the year 2014 had been furnished on 05 May 2015 in terms of the Public Finance Circular No.2/2014 dated 17 October 2014, the Board of Survey Report of the Minister's Office had not been furnished to audit even by 31 May 2015.

(b) Use of Assets owned by other Institutions

Three motor vehicles belonging to other institutions, valued at Rs. 24,800,000 had been used by the Ministry since the year 2007.

3.8 Non-compliances

Non-compliance with Laws, Rules and Regulations

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

(i) Financial Regulations 135 to 139	The payment vouchers of the Economic Centres Meegoda and Veyangoda had not been prepared in accordance with the Financial Regulations

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|--|---|
| <p>(ii) Financial Regulation
384 (2)</p> | <p>The cheques issued by the Economic Center Dambulla, had not been crossed “Not Negotiable”</p> |
| <p>(iii) Financial Regulation
395</p> | <p>Even though the Bank Reconciliation for each month should be prepared and certified before fifteenth day of the month following, the Economic Centers, Meegoda and Veyangoda had not prepared the Bank Reconciliation Statements for in the year 2012 and prior years.</p> |
| <p>(iv) Financial Regulation
446 (2)</p> | <p>Even though the cash book must be written up to date, in chronological order of the receipts and payments, and totalled and balanced daily and the supervisory or a staff officer responsible should sign the cash book as justifying to the correctness of all entries, the cash books of the Economic Centers Meegoda and Veyangoda had not been maintained according to those requirements.</p> |
| <p>(v) Financial Regulation
751</p> | <p>Even though a Board of Survey should be conducted annually, the Boards of Survey of the Economic Centers Meegoda and Veyangoda had not been conducted since their inception up to 31 December 2012.</p> |
| <p>(vi) Financial Regulation
751 (1)</p> | <p>Inventory Registers had not been maintained for the assets of the Economic Centers, Meegoda and Veyangoda.</p> |
| <p>(b) Public Enterprises Circulars
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| <p>Circular No. PED 25 of 29
July 2004</p> | <p>Even though the approval of the Minister of Finance should be obtained prior to the investment of surplus money in Bank Accounts, such action had not been taken in connection with the investments totaling Rs.36,847,979 made up to 31 December 2012 by the Economic Centers, Meegoda and Veyangoga.</p> |
| <p>(c) Public Finance Circulars
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| <p>Circular No. PF/423 of 22
December 2006</p> | |
| <p>(i) Paragraph 3.3 (b)</p> | <p>Action in accordance with the paragraph had not been taken in connection with the Management Trust Fund of the Economic Center, Dambulla.</p> |

- (ii) Paragraph 4
Even though the Annual Budget of the Fund prepared in accordance with the objectives of the Fund, approved by the Minister should be forwarded to the Director General of National Budget and Director General of Public Finance, it had not been so done in connection with the Management Trust Fund of Economic Center, Dambulla.
- (iii) Paragraph 4.2 (b)
The Economic Center, Dambulla had not taken action to issue of an official receipt for each and every receipt received by the Management Trust Fund.
- (iv) Paragraph 4.2 (d)
The Economic Center, Dambulla had not taken action to reconcile the Bank Accounts and books maintained regularly and report the progress thereof to the Director General of Public Finance.
- (d) **Government Procurement Guidelines**

- (i) Guideline 5.4.4
A sum of Rs. 805,000 being equal to 50 per cent had been paid as the mobilization advance to the contractor for the construction of the Exhibition stall for the Deyata Kirula Exhibition of the year 2014.
- (ii) Paragraph 5.4.8
A performance guarantee valued at Rs. 1,610,000 had not been obtained in connection with the contract for the construction of the Deyata Kirula Exhibition Stall.

3.9 Performance

The observations on the progress of the Ministry according to the Annual Budget Estimates and the Action Plan for the year 2014 are given below.

(a) Activities Contrary to Key Functions (Deviation from the Objective etc.)

Instances of action taken by the Ministry deviating from its objectives were observed. Several such instances revealed during audit test checks are given below.

- (i) Sums totalling Rs. 3,272,781 comprising a sum of Rs. 2,535,200 for the publication of notices in 9 newspapers on Felicitation relating to the Commonwealth Heads of Government Meeting and the period of eight years

of His Excellence the President and a sum of Rs. 737,581 for the publication of notices on the opening of the Southern Expressway in 06 newspapers.

- (ii) According to the letter No. CA/1/17/1 dated 14 May 2010 of the Presidential Secretariat, the authorities concerned should make all efforts for the utilization of the provisions received by the Ministries and the Government Institutions with utmost efficiency and effectiveness. Nevertheless, a sum of Rs. 1,744,800 for the transport of journalists to various regions for the media coverage of the Minister, a sum of Rs. 961,083 for the entertainment expenses of the Minister and a sum of Rs. 570,000 for printing of Vesak Cards for the office of the Deputy Minister had been spent during the year under review.

3.10 Transactions of Contentious Nature

The video camera purchased for Rs. 603,232 in the year 2009 for the Media Unit of the Ministry Office had been repaired at a sum of Rs. 507,800 in 06 instances during the year 2010 to 2014 by the institution from which it was purchased. Even though the camera had a guarantee period of one year it had been repaired at a cost of Rs. 18,500 before the elapse of one year. There were reports that the camera had been handled carelessly. After carrying out repairs at a cost of Rs. 131,000 in the year 2014, a new video camera had been purchased in October 2014 for Rs. 576,350.

3.11 Losses and Damage

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

- (a) Damage totalling Rs. 1,725,454 had been caused by accidents to 05 motor vehicles of the Ministry. The officers responsible had not been identified in the preliminary report furnished in terms of Financial Regulation 104(3). The final report had not been furnished even by 20 April 2015. The damage valued to Rs. 567,514 caused to one of those motor vehicles had not been disclosed in the Appropriation Account and the damage of another motor vehicle had not been shown in the preliminary report.
- (b) Even though the loss of Rs. 677,047 caused by a fire to the Ministry building on 31 July 2013 had been shown in the Appropriation Account for the year under review as well, the Ministry had not taken action to settle the matter.

3.12 Management Weaknesses

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

- (a) A sum of Rs. 11,925,900 as building rent from February 2010 to 31 December 2014 and a sum of Rs. 1,664,803 comprising Rs. 236,795 and Rs. 1,428,008 as 02 per cent Nation Building Tax and 12 per cent Value Added Tax based on the above payment respectively had been overpaid to the Sathosa.
- (b) The Ministry had not entered into a written agreement with the contractor for the construction of the exhibition stalls for the Deyata Kirula Exhibition 2014 and the contract had not been properly executed. The advance of Rs. 805,000 paid to the contractor had, therefore been determined as adequate for the work done.

3.13 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2014 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	24	20	04
(ii)	Tertiary Level	05	01	04
(iii)	Secondary Level	271	225	46
(iv)	Primary Level	53	44	09
		-----	-----	-----
	Total	353	290	63
		=====	=====	=====

The Ministry had failed to fill 63 vacancies by the end of the year under review.

4. Head 298 - Department of Measurement Unit, Standards and Services

4.1 Non -maintenance of Registers and Books

It was observed during audit test checks that the Department had not maintained the following registers

Type of Register	Relevant Regulation
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(a) Register of Fixed Assets	Treasury Circular No. 842 dated 19 December 1978
(b) Register of Fixed Assets On Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 dated 28 November 2002
(c) Register of Losses	Financial Regulation 110
(d) Register of Liabilities	Financial Regulation 214
(e) Register of Bids	Guidelines 5.2.1 of the Government Procurement Guidelines

4.2 Lack of Evidence for Audit

Fixed Assets valued at Rs. 645,622,022 could not be satisfactorily vouched in audit due to the unavailability of a Register of Fixed Assets or detailed schedule and the reports of the Board of Survey with the Department.

4.3 Appropriation Account

Budgetary Variance

Excess provision amounting to Rs. 9,002,831 had been made for 01 Object and such the savings after the utilization of provision represented 30 per cent of the net provision relevant to the Object.

4.4 General Deposit Account

Action in terms of the Financial Regulation 571 had not been taken on deposits totalling Rs.44,149,708 older than two years.

4.5 Reconciliation Statement on the Advances to Public Officers Account

According to the Reconciliation Statement as at 31 December 2014 of the Advances to Public Officers Account Item No. 29801, the balances that remained outstanding as at that date totalled Rs.889,212. Even though the balances remained over periods ranging from 01 year to 05 years the recovery of those outstanding balances had been at a weak level.

4.6 Good Governance and Accountability

Annual Action Plan

Even though the Department had prepared an Annual Action Plan in terms of the Public Finance Circular No. 01/2014 dated 17 February 2014, it had not been prepared concurrently with the Annual Budget. As such the items of activities thereof could not be reconciled with the Action Plan.

4.7 Non - compliances

Non-compliance with Laws, Rules and Regulations

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

References to Laws, Rules and Regulations	Value Rs.	Non-compliance
-----	-----	-----
(a) Statutory Provisions		

Measurement Units, Standards and Services Act, No. 35 of 1995		
(i)Section 35 (2)	63,113,245	The sum of Rs. 54,282,245 being the 1/3 of the income of the Fund for the year under review and the sum of Rs.8,830,977 to be credited to the State Revenue in respect of the preceding

(ii) Sections 20 (1) (a) and
37

**(b) Financial Regulations
of the Democratic
Socialist Republic of Sri
Lanka**

Financial Regulation
1646

**(c) Public Administration
Circulars**

Circular No. 06/97 of 03
February 1997

year totalling Rs. 63,111,245 had been utilized for the construction of buildings without proper authority and without being credited to State Revenue.

According to the provision in the Act, all the measurement equipment used in the trade should be verified annually. Nevertheless, a proper methodology to ensure the verification of every equipment had not been established.

The Daily Running Charts and the Monthly Performance Summaries of the pool motor vehicles of the Ministry for the year 2014 had not been furnished to audit.

Even though the period of acting in a post should be subjected to a maximum of 03 months, since, the retirement of the Former Director on 05 May 2009, that vacancy had not been filled and an officer had been appointed to act in that post since the above date even up to 01 April 2014 without the approval of the Cabinet of Ministers.

(d) **Public Finance**
Circular

(i) Public Finance Circular
No. PF/437 of 18
September 2009

Even though an insurance cover for the Measurement Units, Standards and Services Fund should be obtained, such action had not been taken.

(ii) Public Finance Circular
No. PF/423 of 22
December 2006

Paragrapg 4.1 (a)

Even though the budget of the Measurement Units, Standards and Services Fund for the year 2014 should have been furnished to the Director General of National Budget and the Director General of Public Finance before 30 September 2013, it had not been so done.

4.8 Transactions of Contentious Nature

Certain transactions entered into by the Department had been of contentious nature. The particulars of several such transactions observed during the course audit test check are given below.

(a) Despite the availability of economical ways and means of communicating to the traders, the places and dates of verifications, a sum Rs. 1,960,757 had been spent in the year 2014 on newspaper advertisements, without making use of such economical methods. In view of the unavailability of a predetermined program for the determination of verification centers and dates, the verification of only the movable equipment of the trades at such centers and the failure of the notice to convey the correct message to the traders it was observed in audit that the newspaper notice had not been a productive expenditure.

(b) A sum of Rs. 266,800 out of the provision of Rs. 1,100,000 made under Object 1409 had been spent for purpose contrary to the objectives of the Object and not related at all for the performance of the Fund

4.9 Human Resources Management

----- Approved Cadre and Actual Cadre -----

Cadre position as at 31 December 2014 was as follows

	Category of Employee	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior level	16	12	04
(ii)	Tertiary Level	30	-	30
(iii)	Secondary Level	198	115	83
(iv)	Preliminary Level	95	64	31
	Total	339	191	148
		====	====	====

The following observations are made in this connection.

- (a) The Department had not taken action for the filling of 148 vacancies even up to the end of the year under review.
- (b) The posts of the Accountant and the Accountant (Internal Audit) remain vacant from 01 December 2012 and 09 April 2014 and since the non-appointment of any one to the post of Deputy Director since the date of approval of the post up to 31 December 2014. These posts remained vacant even by 29 April 2015.

5. Head 300 – Department of Food Commissioner

5.1 Non-maintenance of Registers and Books

The Department had not maintained the CC10 Register relating to the Advances to Public Officers Account and the Control Account relating to the Advance Account in the updated manner.

5.2 Lack of Evidence for Audit

Twelve transactions totalling Rs. 1,115,654,365 of the Food Purchase and Distribution Advance Account could not be satisfactorily vouched in audit due to the unavailability of the detailed schedules, confirmation of balances, age analysis and Reports of Board of Survey.

5.3 Appropriation Account

5.3.1 Budgetary Variance

The following observations are made.

- (a) Due to making provision without carrying out a pre-evaluation of the requirements in terms of Financial Regulation 50, a sum of Rs. 649,334 out of the provisions totalling Rs. 1,577,000 made under 03 Recurrent Objects and 01 Capital Object had been saved.
- (b) Even though a sum of Rs. 10,000,000 had been allocated in the Annual Budget Estimates for the Object 300-1-1-2001, no expenditure had been incurred during the years. A sum of Rs. 4,310,000 out of that had been transferred to a Capital Object and the balance of Rs. 5,690,000 remained without being utilized.
- (c) Even though a sum of Rs. 10,000,000 had been made under Object 300-1-1-2502 for the construction of a food store at Mahawa under the Deyata Kirula Program held in the Anuradhapura District, that money had been utilized for making payments for the construction under stage II of the Veyangoda Scientific Stores.

5.4 General Deposit Accounts

Two out of three General Deposit Accounts maintained by the Department had not been balanced at the end of the year 2014. The Debits and Credits for the year and the balance as at 31 December 2014 appearing in the Treasury Computer printouts had been erroneously shown as the balance of the Departmental books.

5.5 Reconciliation Statement of Advances to Public Officers Account

According to the Reconciliation Statement as at 31 December 2014 presented for audit, the balances that remained outstanding as at that date amounted to Rs.2,142,767. The Department had failed to recover these outstanding balances despite the elapse of periods ranging from 01 year to 10 years.

5.6 Advance Accounts under Liquidation

The liquidation work of 02 Advance Accounts had been assigned to the Department in terms of a decision of the Cabinet of Ministries. Even though 10 years had elapsed by 31 December 2014, the liquidation work had not been finalized. The following observations are made in this connection.

- (a) The Food Purchase and Distribution Advance Account is being liquidated with effect from 01 January 2005 and a Cabinet Memorandum had been submitted on 28 September 2010 for the write off of the unsettled loan balance as at 01 January 2005 amounting to Rs. 3,772,135 and the working losses amounting to Rs.4,612,880,682 incurred during the years 1985 to 2004. Even though the Cabinet of Ministers had approved the write off of the amounts appearing in the Memorandum, the Minister of Finance had, after the perusal of the memorandum, approved the write off and accounting for Rs. 981,398,869 after consideration of this profits earned during that period and for making the provisions for such procedure. Accordingly, a sum of Rs. 222,779,360 out of that amount had been written off in the years 2012 and 2013, thus leaving a balance Rs.758,619,509 for further write off. Nevertheless, the accumulated loss of the account had been shown as Rs. 718,258,491, thus indicating a difference of Rs.40,361,081.

- (b) Out of the 66 stores rented out to outside institutions by the Department, 24 stores from which arrears of rent amounting to Rs. 51,823,663 was due as at 31 December 2014 had been taken over. Nevertheless arrears of rent receivable in that connection amounting to Rs. 31, 881,372 had not been recovered up to 23 June 2015.
- (c) The recovery of the recoverable debtors balances totalling Rs. 388,325,264 as at 31 December 2014 had been at an extremely weak level.
- (d) Money recoverable as at 31 December 2014 from 269 storekeepers who had vacated post/ dismissed from service or whose whereabouts are not known or retired totalled Rs. 43,713,183.

5.7 Performance

5.7.1 Planning

Instances in which action not been taken according to the Action Plan prepared in terms of the Public Finance Circular No. 01/2014 of 17 February are given below.

- (a) In accordance with the Corporate Plan prepared for the years 2013 to 2016 and the Action Plans, the maintenance of a Special Rice Buffer Stock of 8,000 metric tons for the requirements of the Countries in the SAARC Region in terms of Colombo SAARC Convention and the maintenance of a Rice Buffer Stock of 50,000 metric tons in terms the Cabinet Decision dated 28 October 2009 is one of the key functions of the Department. But the Department informed that it did not have a Buffer Stock of Rice as at 31 December 2014. Nevertheless, the Food Commissioner informed the audit on 24 July 2015 that the project could not be implemented due to the lack of provision for the purpose made in the Annual Budget Estimates.
- (b) Even though plans had been made for the maintenance of a Buffer Stock of Onions, Maize and Green Gram in three of the stores of the Department according to the requirements of the respective Ministries, to examine their quality and decrease in stocks and for continuous issues to be made through the Lak Sathosa such stocks had not been maintained in the 2014.

5.8 Deficiencies in the Operation of Bank Accounts

According to an analysis of the Bank Reconciliations prepared for December 2014 by the Department, the value of unrealized deposits older than 03 years amounted to Rs.1,155,065.

5.9 Irregular Transactions

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

A block of land 130 perches in extent of the Kahandawa Food Stores premises of the Department had been given on a lease on the instructions of the Secretary to the Ministry to a private company for the construction of industrial buildings for a period of 05 years at a monthly rental of Rs. 32,500. The company had planned to construct a new industrial building of 25,080 square feet on 92 perches block of the said land. Even though an agreement had been entered into for the demolition of the food store of 4,090 square feet belonging to the Department of Food Commissioner, construct a new store and handover to the Department of Food Commissioner within 03 months, the store had not been handover even by 30 June 2015. It was being used for storing the goods belonging to the Company.

5.10 Management Weaknesses

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

- (a) Two food stores of the Department of Food Commissioner, situated at Gattuwana Kurunegala, used by the Co-operative Wholesale Establishment, had been handed over to the Lanka Sathosa, by that institution, without being handed over to the Department. The Department had not received any money from the two institutions. Arrears of stores rent for the year 2005 to 31 May 2015 amounting to Rs. 7,418,751 remained receivable by the Department.

- (b) According to the lease agreement entered in to between the Department of Food Commissioner and a private company for leasing out the stores and office at Malkaduwawa, Kurunegala, the lessee had been authorized to carry out minor repairs costing less than Rs. 50,000. Approval had been given to set off repair expenses from the monthly rental and for carrying out repairs valued at Rs.2,543,593 subject to a rent free three month period. The repairs had not been carried out properly even by 31 December 2014, and the company had not paid rent amounting to Rs. 1,417,031 relating to the period from 01 June 2014 to 31 May 2015.
- (c) Stores Nos. 11 and 09 of the Veyangoda Stores Complex had been rented out to a private institution in the years 2005 and 2006 respectively. Out of that store No. 09 had been handed over to the Department in the year 2008. The arrears of rent for that store from 27 January 2006 to 09 June 2008 amounting to Rs. 823,460 had not been recovered even up to 02 July 2015. Even though the damage caused by that company to the store had been assessed at Rs. 607,500, that company had not paid that amount and the Electricity Bill amounting to Rs. 95,859. As the company had not paid that loss, a case for the recovery of possession of the store and the arrears of rent is pending in the Courts.
- (d) Two food stores of the Government at Kahawatta had been leased out in the year 1993 to the Pannilapattu Multipurpose Co-operative Society and that Society had paid a lease rental lesser than the assessed lease rent of Rs. 39,500. As such the lease rent recoverable from the Society up to 31 May 2015 amounted to Rs.1,281,964.
- (e) The lessee who had taken the food store at Pallekele on lease had not paid any payments since 03 October 2013 other than the initial security deposit of Rs.900,000. Arrears of lease rent amounting to Rs. 3,590,768 remained receivable as at 31 May 2015. The validity of the lease agreement had expired on 01 August 2014.
- (f) The lease rent receivable as at 31 March 2015 on the other 11 stores of the Department amounting to Rs. 21,214,875 had not been recovered. As 36 other

stores and 05 office premises had been handed over free of rent to Government institutions, no income therefrom had been received.

- (g) The Department had initiated legal action for the recovery of Rs. 6,724,121 receivable from two millers for the rice not delivered in connection the paddy issued to them in the years 2012 and 2013 on the basis of supply of rice for storage in the scientific store at Veyangoda, a sum of Rs. 79,567 for the unreturned polisacks and the money not recovered up to 30 June 2015.

5.11 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2014 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	05	03	02	-
(ii) Tertiary Level	115	46	69	-
(iii) Secondary Level	03	-	03	-
(iv) Primary Level)	102	65	37	-
(v) Others (Casual/ Temporary/ Contract basis)	-	08	-	08
Total	225	122	111	08

The Department had not taken action to fill 111 vacancies.

6. Head 301- Department of Co-operative Development

6.1 Presentation of Accounts

The Financial Statements for the year 2014 in respect of the Co-operative Development Fund and Co-operative Surplus Fund operated under the Department had not been furnished to audit even by 31 May 2015.

6.2 Appropriation Account

Budgetary Variance

Excess provisions totalling Rs. 15,200,000 had been made for 15 Objects and as such, the savings, after the utilization of provisions, ranged between 16 per cent to 57 per cent of the provisions made.

6.3 General Deposit Account

A sum of Rs. 107,000 out of Rs. 6,607,000 received in August 2011 as a part of the money receivable from the Provincial Commissioner of Co-operatives of the Eastern Province in connection with the supply of essential goods to the people of the Eastern Province rendered destitute due to floods, had been retained in the General Deposit Account without being settled even by 17 May 2015.

6.4 Reconciliation Statement of the Advances to Public Officers Account

The following deficiencies were observed during course of test checks of the Reconciliation Statement as at 31 December 2014 of the Advances to Public Officers Account Item No. 30101.

- (a) A difference of Rs. 229,187 existed between the total of Control Account and the Individual Balances Classification Summary. According to the reconciliation prepared by reconciling that difference, a further difference of Rs. 131,196 had not been identified.

- (b) The distress loan of Rs. 139,900 granted to an officer in November of the year under review had not been included in the Individual Balances Classification Summary presented as at 31 December 2014. Similarly, the loan installments relating to the loan had not been recovered even by 30 April 2015 contrary to Section 3.7 of Chapter XXIV of the Establishments Code.
- (c) Action in terms of Section 1.6 of Chapter XXIV of the Establishments Code and the provisions in the National Budget Circular No. 118 dated 11 October 2004 had not been taken in connection with loan balances amounting to Rs. 224,815 recoverable from 22 officers who had gone on transfers as at 31 December 2014. Out of these balances, balances amounting to Rs. 6,568, Rs. 2,700 and Rs.215,547 had been existing for over 5 years, 10 years and exceeding 13 years respectively. Nevertheless the Department had failed to recover those balances even by 31 December 2014.
- (d) Balances totalling Rs. 62,713 recoverable from the officers released as at 31 December 2013, had not been brought forward in the Members Loan Register as at 01 January 2014. The manner of settlement of those loan balances was not made available to audit. Even though a sum of Rs. 98,356 was recoverable from two officers released to other Departments as at 31 December 2014, a sum of Rs.96,212 out of those loan balances had been outstanding over periods ranging from 01 year to 05 years. The outstanding period of a balance Rs. 2,144 had not been identified.
- (e) Action in terms of Sections 4.2.4 and 4.2.5 of Chapter XXIV of the Establishments Code had not been taken on loan balances totalling Rs. 662,019 relating to 03 officers who had retired during periods ranging from 01 year to 13 years as at 31 December 2014.
- (f) Loan balances totalling Rs. 524,631 remained outstanding from interdicted officers and officers vacated posts over period ranging from 01 year to 13 years as at 31 December 2014. Action in term of Section 4.5 and 4.6 of Chapter XXIV of the Establishments Code had not been taken on those loans.

6.5 Assets Management

Conduct of Annual Board of Survey

According to the Public Finance Circular No. 02/2014 dated 17 October 2014, an Annual Board of Survey for the year 2014 should be conducted and the report thereon should be furnished to the Auditor General before 31 March 2015. Nevertheless, the Department had not furnished that report even by 31 May 2015.

6.6 Performance

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

- (a) Even though 6 meetings of the Provincial Commissioners at the rate of one meeting every two months, should be held as stated in the Action Plan, only 02 meetings had been held during the year under review.
- (b) According to the Action Plan, plans had been made to hold Departmental Level 04 Accounts Committees in carrying out of the audit of Co-operative Societies, Such Committee meetings had not been held during the year under review.

6.7 Management Weaknesses

Even though a sum of Rs. 10 million from the Ministry provisions had been given to 04 Co-operative Societies, for carrying out improvements to Mega Co-op Cities concurrently with the 2014 Deyata Kirula Programme, no steps had been taken either to obtain a report of the manner in which the money was spent from the Provincial Commissioners or the taking follow up action.

6.8 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2014 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	09	06	03
(ii)	Tertiary Level	07	-	07
(iii)	Secondary Level	105	85	20
(iv)	Primary Level)	20	17	03
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	Total	141	108	33
		=====	====	==

The Department had failed to fill 33 vacancies including 03 vacancies in the posts of Senior Level.

7. Head 302 – Co-operative Employees Commission

7.1 Appropriation Account

Budgetary Variances

The following observations are made

- (a) Excess provision totalling Rs. 210,000 had been made for two Recurrent Objects and as such, the savings after the utilization of provision, amounted to 29 per cent and 64 per cent of the provision made.

- (b) Two items of expenditure totalling Rs. 41,127 payable in relation to the year 2014 had not been included in the Statement of Liabilities in the Appropriation Account.

7.2 Reconciliation Statement of the Advances to the Public Officers Account

The following observations are made

- (a) A difference of Rs. 15,167 existed in the opening balance and the closing balance of the Advances to Public Officers Account, between the Department Books and the Treasury Books.

- (b) Action in terms of Section 4.2.5 of Chapter XXIV of the Establishments Code had not been taken even by 31 December 2014 for the recovery of the loan balance of Rs. 220,000 recoverable from a retired officer.

7.3 Assets Management

The Code Numbers relating to the assets had not been recorded in the Register of Assets in terms of the Public Finance Circular No. 174 of 18 October 2014.

7.4 Performance

The observations on the progress of the Commission according to the Annual Action Plan for the year 2014 are given below

Key Functions not Executed Adequately

Several instances in which the Commission had not adequately executed the key functions are given below.

- (a) Even though making amendments to the Co-operative Employees Commission Act, No. 12 of 1972 is a function of the Commission, action to obtain the approval of the Cabinet of Ministers for the Draft Act and make amendments had not been taken even up to 31 June 2015.

- (b) Even though the introduction of a new Pension Scheme for the Co-operative Employees is a key function proposed in the year 2006, the Commission had failed up to 30 June 2015, to implement this activity.

7.5 Unresolved Audit Paragraph

The follow-up action on the following matters included in the Reports of the Auditor General had not been finalized.

Reference to Auditor General's Report		Matter Under Reference
Year	Paragraph Number	
2012	1.6	Amendment of the Act and the failure to implement the Pension Scheme
	1.7 (1) (11)	Non-filling of vacant posts and the failure to approve a permanent officer to the post of the Secretary

7.6 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2014 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	03	01	02
(ii) Tertiary Level	01	-	01
(iii) Secondary Level	13	09	04
(iv) Primary Level)	06	05	01
Total	23	15	08

The following observations are made

- (a) The Commission has failed to fill 8 vacancies by the end of the year under review.
- (b) 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, action had not been taken from the year 2008 to the year 2014 to appoint a Secretary to the Commission on permanent basis.