

Head - 258 District Secretariat, Kandy

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head-258 District Secretariat, Kandy for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018. The summary report containing my comments and observations on these financial statements of the District Secretariat, Kandy in terms of Section 11(1) of the National Audit Act, No.19 of 2018 was issued to the Accounting Officer on 10 May 2023. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 10 May 2023 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the District Secretariat, Kandy as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the District Secretariat is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the District Secretariat and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Secretariat's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

1.5 Report on Other Legal Requirements

In terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018, I express the following matters.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments of the Financial Statements

Accounting Deficiencies

Property, Plant and Equipment

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The opening balance of 05 items of assets in the statement of non-financial assets had been overstated by Rs.9,818,250 compared to the closing balance of the preceding year.	It is accepted that the values of 05 items of assets have been overstated as per Treasury Form SA 82.	The differences of the account balances should be identified and corrected.
(b) As per the trial balance, there was a difference of Rs.7,401,750 when comparing addition of 05 non-current assets during the year under review with the balance indicated in the ACA-6 (SA 82) report, while there was a difference of Rs.4,325,500 when comparing the disposals of 02 non-current assets with the balance indicated in the ACA-6 (SA 82) report.	The addition made by the Divisional Secretary to the opening balance in the year 2022 resulted in this difference.	The differences of the account balances should be identified and corrected.

2. Financial Review

2.1 Certification to be made by the Accounting Officer

Audit Observation	Comment of the Accounting Officer	Recommendation
According to provisions in Section 38 of the National Audit Act No.19 of 2018, the Accounting officer shall ensure that an effective internal control system for the financial control exists in the District Secretariat and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out, and after carrying out such review in writing, a copy thereof shall be submitted to the Auditor General. However, no statements were made to the Audit that such review had been carried out.	The Chief Accounting Officer and Accounting Officer has placed their signature on the financial statements to the effect that an effective internal control system for the financial control exists carry out periodic reviews to monitor the effectiveness of such systems ,and accordingly make any alterations as required for such systems to be effectively carried out.	Action should be taken in accordance with Section 38 of the National Audit Act No.19 of 2018.

2.2 Non-compliance with Laws, Rules and Regulations

Instances of Non-compliance with Laws, Rules and Regulations are as follows.

Observation	Reference to rules and regulations	Amount lost Rs.	Non compliance	Comment of the Accounting Officer	Recommendations
(a)	Establishments Code of the Democratic Socialist Republic of Sri Lanka				
	Sub-sections 6.1 and 7.2 of Chapter XIX		According to the audit test check, although there were officers in the waiting list, 05 officers who had been provided the government quarters but had elapsed their period of lease over 05 years, were allowed to reside in those quarters by granting extensions from time to time at the end of period of lease. The penal rent to be recovered for their excess period of residing and the current market rent assessed by a Chief Assessor were not recovered.	The period of residence was extended taking into account special needs and the house rent was charged as normal for that period and action will be taken to recover the penal rent.	Action should be taken in accordance with the provisions of the Establishments Code
(b)	Other Circulars				
	Paragraph 04 of the Circular No.2017/03 dated 15 February 2017 of the Director General of the Divineguma Department and Paragraph 10 of the Circular No.2018/02 (Economic Empowerment) dated 07 March 2018 of the Director		Juki machines had been provided to 821 beneficiaries or 33 percent of the total beneficiaries of 06 Divisional Secretariats for garment industry, which is not included in the specifically nominated projects to be implemented to empower the Samurdhi community. As observed at the physical inspection carried out in 04 Divisional Secretariats, 29	This step has been taken at the requests of the beneficiaries and under the guidance and approval of the Divisional Secretary.	Action should be taken in accordance with the circular provisions.

General of Samurdhi Development Department. machines remained idle without being utilized.

2.3 Transactions of Fraudulent Nature

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In the purchase of flower pots and plants for the environment beautification programme implemented by the Gangawata Korale Divisional Secretariat under the Gamasamag Pilisandarak programme, a loss totaling Rs.190,025 had been incurred due to making the purchase without being complied with the specifications set in placing the order.	According to the number of square feet of the flower pots, the loss is Rs.28,468 and action will be taken to recover that amount from the supplier. The height of the plants were erroneously included in the specifications and the quotations, and plants that have died will be replaced with new ones.	Payments should be made only for the work done and purchase should be made according to the specifications.
(b) In fixing wire nets of the community hall construction work near the old handicrafts building at Kalasirigama in Kundasale Divisional Secretariat, a sum of Rs.227,548 had been overpaid for undone works.	The Technical Officer admitted that an error had occurred in entering numerical figures during the preparation of bills through the computer.	Payments for the completed work should be recommended.

2.4 Issuance and Settlement of Advances

Audit Observation	Comment of the Accounting Officer	Recommendation
Loan balance of Rs. 576,359 due from 06 officers who were interdicted, transferred, and those who vacated the service had not been recovered by taking action in accordance with Subsections 4.5 and 4.6 of Chapter xxiv of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, and Paragraph 1.1.6 of the Budget Circular No.118 dated 11 October 2014.	The Treasury has been informed about the interdicted officers and the officers who have vacated the service, and the matter has been referred to the Attorney General for clarifications. One loan balance is being recovered from the guarators and requests have been made to the Provincial Council regarding the transferred officers.	Outstanding loan balances should be recovered by taking action in accordance with the provisions of the Establishments Code and instructions of the circulars.

3. Financial Review

3.1 Failure to achieve expected outcome

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A sum of Rs. 3,200,000 had been incurred for the passion fruit cultivation project implemented in the Patha Hewaheta Divisional Secretariat division under the Saubagya Production Villages Programme. Out of the passion fruit seedlings distributed among 29 beneficiaries, plants ranging from 66 percent to 93 percent had been destroyed and there was no healthy growth of the remaining plants as well.	The shortage of necessary chemical fertilizer resulted in the damages to cultivation and the long-lasting yellow coloured variety will be grown in the fields where the previous cultivations were destroyed.	Projects should be effectively implemented to achieve the expected objectives.
(b) After selecting selected 43 low-income families in the jurisdiction of Minipe Divisional Secretariat, a flour grinding industry had been started at a cost of Rs. 1,732,500 under the Saubagya Production Villages Programme. Due to not making plans to sale the products of the project or to establish a related production process, beneficiaries were unable to sale these products.	A dehydrator machine has been purchased at present and production has been commenced. Three members have been identified for the mobile trade and a progress in the production sale is expected in the future.	Projects should be planned so as to achieve the expected outcome.
(c) It was observed that 23 of the beneficiaries out of the examined beneficiaries of the vanilla village project and the fresh milk production village project, which were implemented at a total cost of Rs. 12,188,940 in the Divisional Secretariat Divisions of Ganga-ihala Korale, Deltota and Pathadumbara, were the individuals from families involved in the public service and people of high income levels, contrary to the Guidelines 2021/01 of the Sawbagya Prodcution Villages Programme.	The dairy cattle provided to 10 government employees and 02 retired army soldiers have been handed over to low income earners. As the beneficiary has to bear a contribution of Rs.200,000, the District Secretary of Deltota selected low and middle income earners for the project.	Beneficiaries should be selected as setout in the Guidelines.

- (d) For the purpose of dehydrating and selling vanilla beans under the Vanilla Village Project implemented by the Divisional Secretariat of Ganga Ula Korale, a vanilla dehydrator had been purchased spending Rs. 852,200 and a building had been constructed at a cost of Rs. 1,144,218 to install the machine. However, the vanilla growers who were inspected in December 2022 had reaped their harvest and sold the raw beans to external traders.
- Due to the heavy rains experienced at the time of harvesting yield and the difficulty in procuring kerosene to run the machine, the growers were tempted to sell raw beans to the outsiders.
- Plans should be implemented to effectively implement the relevant projects.
- (e) For the implementation of turmeric cultivation project in the Divisional Secretariat division of Minipe under the Livelihood Development Project, 610 kilogrammes of turmeric had been purchased at a cost of Rs.475,800 without the recommendations of the Technical Evaluation Committee and distributed to 10 beneficiaries. As these turmeric seeds did not germinate, the money spent thereon became fruitless.
- Some seeds did not germinate due to the prevalence of heavy rains, the soil erosion caused by the precipitations, and the extensive water stagnant.
- Funds should be invested to achieve the expected benefits
- (f) The industries of 26 beneficiaries out of 33 beneficiaries in the examined 6 divisions of the Livelihood Development Project implemented in Pasba's Korale and Minipe Divisional Secretariats divisions from 2015 to 2021 were at an unsuccessful level. It was 79 percent as a percentage.
- The projects were unsuccessful due to the economic decline and the Covid epidemic situation prevailing in the past.
- A sound supervision and follow up process should be maintained.

3.2 Assets Management

Annual Board of Survey

Audit Observation	Comment of the Accounting Officer	Recommendation
No board of survey had been conducted in the Divisional Secretariats, Grama Niladharee Offices and the Offices of the Economic Development Officer in Kandy District after the year 2019 as required by F.R 757 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	A formal board of survey will be conducted in 2023.	Action should be taken in accordance with Financial Regulations.

3.3 Management Weaknesses

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) It had been identified that 1,070 families were living in landslide prone areas and high-risk areas in 09 Divisional Secretariat divisions, whereas they had been allowed to live in those high-risk area without being taken steps to resettle or direct them to an alternative opportunity.	The reasons such as reluctance of the residents to leave the area and issues involved in releasing lands for resettlement have given rise to this situation.	Expeditious measures should be taken regarding the safety of the people living in high-risk areas
(b) Under the resettlement program of people living in high-risk areas of the Divisional Secretariat division of Ganga Ihala korale, 2020, the land called Kuruduwatta had been divided into 234 lots of 10 perches. Although the National Building Research and Organization Institute had reported that 73 plots of land were unfit for residing, such 43 plots of land unfit for residing had been distributed to individuals and Rs.8,600,000 had been paid as the first installment at Rs.200,000 each.	That the reports which was provided by the National Building Research Institute had not been received at the time of the distribution of land.	Action should be taken in accordance with recommendations of the National Building Research Institute.
(c) Due to failure to compliance with Pension Circulars No. 5/2011 dated 30 June 2011 and No. 11/2009 dated 08 June 2009 of the Director General of Pensions, 49 pensioners who had proceeded abroad in 10 Divisional Secretariat divisions had been overpaid Rs.622,730 as the cost of living allowance and the special allowance.	Action will be taken to recover the overpayments.	Overpayments should be recovered.

- (d) Every Sri Lankan citizen who reaches the age of 15 years is required to obtain a National Identity Card in pursuance of Section 512 of the Registration of Persons Act No. 32 of 1968 and the Registration of Persons (Amendment) Act No. 08 of 2016. However, 3,334 persons over the age of 15 in 20 Divisional Secretariats divisions had not obtained NICs.
- Action will be taken to issue National Identity cards by informing Grama Niladharees and conducting mobile services.
- Circular instructions should be complied with.
- (e) The total balance of the Livelihood Revolving Credit Fund Account as at 31 December of the year under review amounted to Rs.176,654,710, of which there was an outstanding credit balance of Rs.115,504,354. The credit of Rs 4,770,272 of 128 recipients had lapsed and credit amounting to 6,112,935 of 105 loan recipients had turned out to be bad debts.
- Beneficiaries have been informed by the officers to settle the credits immediately.
- Revolving Credit Fund should be effectively implemented by promptly recovering credit balances.
- (f) Under the Grama Shakti Janata Viyaparaya Program implemented in Kandy district, credit amounting to Rs.61,534,600 had been given to 1779 beneficiaries. Credit amounting to Rs. 8,613,503 of 319 of the above beneficiaries had become non-performance debts.
- Beneficiaries have been informed by the officers to settle the credits immediately.
- Action should be taken to recover the outstanding debts promptly.
- (g) Pensions of Rs. 27,563,134 had been overpaid to 119 pensioners in 08 Divisional Secretariat divisions during 2021 and 2022. A sum of Rs. 13,417,571 of the above amount further remained unrecovered.
- The occurrences of shortcomings are accepted. Action will be taken to recover the overpayments that have not been recovered so far and steps will be taken to prevent overpayments in the future.
- Necessary measures should be taken regarding overpayments.

4. Human Resource Management

Audit Observation

Although the need for transfer of government officials has been pointed out by the provisions relating to transfers of public servants in Chapter viii of the Procedural Rules of the Public Service Commission (Category No. 01) published in Gazette No. 1589/30 (Extraordinary) dated 20 February 2009 and Public Administration Circular No. 18/2001 dated 22 August 2001, 140 officers of 09 Divisional Secretariats had been employed in the same office for a period of 06 to 24 years.

Comment of the Accounting Officer

A name list including the officials who have exceeded 05 years service in the same office has been referred to the Director General of Combined Services

Action should be taken in accordance with circular provisions.