

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 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 09 May 2024. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 09 May 2024 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 2023, 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.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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 Comment on the Financial Statements

1.6.1 Accounting Deficiencies

Losses and Damages

Audit Observation

According to the F.R.104(4) investigation report on the damage caused by the fault in the electrical system at the Harispattuwa Divisional Secretariat on 24 January 2023, the loss amounting to Rs. 1,150,332 was not shown in the statement of losses and waivers in the financial statements of the year under review.

Comment of the Accounting Recommendation Officer

Due to communication errors that occurred during the collection and presentation of information, it has not been possible to include this loss in the statement of losses and waivers in the financial statements.

Losses and waivers should be accurately calculated and disclosed.

2. Financial Review

2.1 Transactions of Fraudulent Nature

Audit Observation

- (a) A cost of Rs. 93,421,253 had been incurred for the construction of the new office building at the Delthota Divisional Secretariat. During the course of audit test check related to this, the following matters were observed.

Comment of the Accounting Recommendation Officer

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| (i) | An additional 11% profit margin had been added for the transportation of soil excavated at the worksite, and Rs. 226,098 was overpaid for the transportation of 4,847.74 cubic meters of soil. Additionally, a 9% extra profit margin had been added for drilling rock holes with a diameter of 32 mm and a depth of 300 mm and inserting iron rods for the construction of concrete pillars, resulting in an excess payment of Rs. 57,940. | This correction will be made by making necessary deduction during the next release of retention funds. | The rates should be properly prepared in accordance with the Building Schedule of Rates (BSR). |
| (ii) | A loss of Rs. 78,627 was incurred due to the removal of 278.15 cubic meters of stone from the construction site without proper procedure and approval. | That a quantity of 102 cubic feet of stones that had been piled at the worksite was sold at a rate of Rs. 800 per cubic foot following the procurement process. | The disposal should be carried out in accordance with the procurement process. |
| (iii) | As per the 2019 Building Schedule of Rates (BSR) analysis, the maximum transportation charge payable for machinery and equipment used for crushing stones over a distance of 25 km is Rs. 29,700. Nonetheless, Rs. 755,745 was paid for the transportation of the equipment, resulting in an overpayment of Rs. 726,744. | An independent committee has been established to conduct an investigation and present a report in this regard. | Payments should be estimated and made according to the Building Schedule of Rates. |
| (iv) | Without obtaining the necessary permits according to the Circular No. 02/06/02/09/(viii) – GSMD dated 20 October 2020 of the Secretary to the Ministry of | An independent committee has been established to conduct an investigation and present a report in this regard. | Actions should be taken according to the circular instructions. |

Environment, a total of 1,713 cubic meters of excavated soil had been transported from the construction site. As a result, a license fee revenue of Rs. 188,085 for the 1,713 cubic meters of soil was lost.

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| (b) | A payment of Rs. 112,208 had been made for seven undone work items of the construction contract for the II stage of the official quarters complex at the Kandy District Secretary's Office. | It is acknowledged that an error has occurred in the payments, and there is no financial loss incurred due to the non-payment for 5.82 m ³ of stone wall. | Payments should not be recommended for the undone work. |
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3. Operating Review

3.1 Failure to Achieve Expected Output Level

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) According to the Livelihood Development Project implemented by the Pathahewaheta Divisional Secretariat, in line with Ministry of Finance Circular No . ME/NPP/02/2021 dated 15 December 2021, out of 10 beneficiaries selected in two inspected divisions, no flower plants had been cultivated in the houses of two beneficiaries, which were constructed at a cost of Rs. 366,000. Additionally, although a few Anthurium plants had been cultivated in the houses of seven beneficiaries, constructed at a cost of Rs. 1,281,000, no sales of the plants had taken place.	Steps are being taken to identify beneficiaries who do not comply with the instructions given by the office and to allocate their shelter houses to other beneficiaries in the area who are interested in cultivating flowers.	Resources should be utilized efficiently.

3.2 Failure to Achieve Expected Outcome

Audit Observation	Comment of the Accpunting Officer	Recommendation
(a) Out of the 13 beneficiaries engaged in the coconut-based industry, 8 beneficiaries engaged in the mushroom cultivation industry, and 8 beneficiaries involved in the plant nursery industry, inspected under the 2021 Saubhagya Production Villages Program implemented by the Poojapitiya Divisional Secretariat, 10, 4, and 6 beneficiaries, or 77%, 50%, and 75% respectively, had left these industries.	Due to the severe economic crises, such as the COVID-19 pandemic and the subsequent fuel crisis, it had not been possible to carry out the projects at the expected levels.	The relevant projects should be maintained efficiently.
(b) Under the " <i>Gama Samaga Pilisandarak</i> " rural development programme implemented last year, the Akurana Divisional Secretariat had purchased 15 Juki machines at a cost of Rs. 667,075 for 15 beneficiaries from the Udaweliketiya division, as part of the project to construct a garment factory. Although funds were allocated for the construction of a garment factory, the Juki machines were distributed individually to each person, and it was observed that none of the eight beneficiaries inspected were using the machines to operate a business.	Due to the unavailability of a public space, it has not been feasible to initiate a garment factory.	The planned projects must be maintained effectively.

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| <p>(c) Under the project to establish one entrepreneur per village, as per the circular numbered SMR/P/DEV(v)/10/03/2021 (General) dated 15 July 2021, having selected 89 beneficiaries in three divisional secretariat divisions for sectors such as garments, carpentry, grinding mills, compost, and mushroom cultivation, a sum of Rs. 8,049,708 had been spent. Due to weaknesses in the beneficiary selection process, the projects of the inspected beneficiaries, which ranged from 67% to 100%, were found to be unsuccessful and slow.</p> | <p>Although the projects became inactive due to issues that arose during their implementation, necessary follow-up actions are now being taken, gradually bringing the projects back to an active status.</p> | <p>Resources should be utilized effectively.</p> |
| <p>(d) Despite the passage of two years since the supply and installation of a 4.08 kW solar power system at the official residence complex of the Kandy District Secretariat at a cost of Rs. 1,400,000 in 2021, no efforts were made to sell the 4.08 kW of electricity generated by the solar power system even by the end of the review year.</p> | <p>At present, we are observing the daily electricity generation units, allowing us to implement a method for quickly detecting any breakdowns or errors. Since all defects have now been rectified, the intended objective is being achieved.</p> | <p>Resources should be utilized effectively..</p> |

3.3 Assets Management

Audit Observation	Comment of the Accpunting Officer	Recommendation
<p>A government residence at the Ududumbara Divisional Secretariat, along with 05 computers and accessories of unidentified value at the Pasbawage Korale, Minipe, and Akurana Divisional Secretariats,</p>	<p>The devices received in the year 2009 at the Pasbawage Korale and Minipe Divisional Secretariats consist of outdated technology. Actions have been taken to inquire with the Ministry of Industries regarding future measures, and</p>	<p>Resources should be utilized effectively.</p>

as well as 07 self-employment machinery and equipment, remained idle for a period ranging from Year 01 to Year 14 at the Science and Technology Centres. there is a possibility to utilize the government quarters at the Ududumbara Divisional Secretariat at the request of the officials.

3.4 Uneconomic Transactions

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) As per the letter from the Secretary of the Ministry of Public Administration and Home Affairs, bearing No. EST/8/ALLOW/03/121 dated 27 January 2014, although the rural-level development projects were not operational after April 2022, special allowances totaling Rs. 2,084,000 had been disbursed to 20 officials at the District Secretariat and 17 Divisional Secretariats during the period from 01 April 2022 to 31 December 2023.	Payments of allowances are made for the officials for coordinating rural-level development programs in accordance with the Letter EST/8/ALLOW/03/121 dated 27 January 2014.	Circular instructions should be followed.
(b) Despite having repaired the Textile Center at the Akurana Divisional Secretariat at a cost of Rs. 923,205 in March of the previous year, the building had not been used to fulfill its intended purpose even by the end of the year under review.	Approval has been received from the Textile Department of the Central Provincial Council to commence a textile project at the currently existing Textile Center Building in the Villana of Pallagama division.	The building should be used for the intended purpose.

- (c) Having repaired the school building on Palliyakotuwa Road at a cost of Rs. 905,758 in 2022 for the purpose of operating a garment industry, the Poojapitiya Divisional Secretariat stored the sewing machines received from the Ministry of Industry and Commerce in 2018 within this building. Nevertheless, due to the failure to commence the garment industry by the end of the year under review, both the sewing machines and the building remained idle.
- It is necessary to construct a security fence at the location and provide sanitation facilities and water supply before commencing the garment industry.
- Projects should be properly planned and initiated.
- (d) Despite having constructed a building at a cost of Rs. 1,873,064 to establish a production sales center in the Pallegama area by the Poojapitiya Divisional Secretariat, the building had not been utilized for its intended purpose even by the end of the year under review.
- As the entrance to the facility is quite narrow and not visible to the road, it is deemed unsuitable for maintaining operations as a sales center.
- Projects should be initiated after conducting a proper feasibility study and prior planning.
- (e) Although plans were made to start a garment factory using machinery and equipment received in 2017 for establishing small industries related to garments under the Ministry of Industry and Commerce, by developing the closed school building at Kahatagasthenna Godahena in the Poojapitiya Divisional Secretariat
- It was not possible to achieve the expected objectives, and further actions are due to be taken with the receipt of provisions.
- Projects must be accurately planned and implemented following a feasibility study.

Division at a cost of Rs. 1,200,000 under the hundred-thousand work program from the budget, the failure to initiate the garment factory by the end of the reviewed year resulted in both the equipment and the building remaining idle.

- (f) Under the 2021 Saubhagya Production Villages Program, the Minipe Divisional Secretariat had spent Rs. 4,652,567 to construct a building for flour processing center, install a dehumidifier, and provide 33 flour milling machines to 33 low-income families in the Bulathwelkandura Grama Niladhari Division to initiate a flour grinding industry. According to the physical inspection conducted on 27 February 2024, it was observed that the relevant dehydrating operations were not being carried out at the flour processing center, and the sum of Rs. 2,920,067 spent on this had become an idle expense.
- Although household flour milling machines were provided to 33 beneficiaries, the project was designed for the beneficiaries to produce rice flour at home, then bring it to a flour collecting central for drying, so it could be preserved and supplied to the market. However, as this did not happen, the beneficiaries are only using the home-installed machines to mill rice and grains brought by neighbors, earning around Rs. 800 per month.
- Resources should be utilized effectively..

3.5 Management Weaknesses

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A total of Rs. 55,001,651 had been overpaid as basic salary and cost of living allowance to 209 retirees from 20 Divisional Secretariats in the Kandy District over a period ranging from 1 to 19 years, out of which Rs. 28,702,753 remained uncollected even by the end of the year under review.	It is noted that over 75% of the excess payments were due to errors in the payment of military retirement pensions and that the Army Commander has been informed about this, while recovery actions are ongoing.	The internal control system should be strengthened to prevent overpayments of pensions, and immediate action should be taken to recover the excess payments as quickly as possible.
(b) Without following the guidelines of the Pension Circular No. 05/2011 dated 06 June 2011, an excess payment of Rs. 3,310,244 was made as cost of living and special allowances to 118 retirees living abroad in 14 Divisional Secretariats during the previous year and the year under review. By 31 December 2023, a sum of Rs. 1,587,895 was still to be recovered from 79 retirees in 11 Divisional Secretariats.	At present, the pension payments for retirees living abroad have been suspended. However, these recoveries will be made when their pensions are reactivated upon their return to Sri Lanka.	The internal control system should be strengthened to prevent overpayments, and immediate action should be taken to recover the excess payments as quickly as possible.
(c) During an examination of a sample of 350 files related to land acquisition and transfer from 15 Divisional Secretariats, it	Due to the involvement of various parties in the processes of land acquisition and transfer, these activities have been delayed; however, having informed the	The issues that have arisen during the process of land transfer and acquisition should

was observed that although a time period of 3 to 40 years had passed since the opening of the files, the processes for land acquisition or transfer had not been completed. relevant parties, measures are being taken to expedite the acquisition processes. be identified and corrective actions taken to resolve them.

- (d) In the Kandy District, 1,845 families had been identified by 20 Divisional Secretariats as living in extremely risk conditions, and it was observed that 1,386 families continued to reside in high-risk areas by 31 December 2023. Beneficiaries have stated that they are unwilling to vacate their homes since there have been no disaster situations in those areas for a long time and they are conducting their livelihoods based on the respective residential areas. Accordingly, a request has been made for a reassessment by the National Building Research Organization, submission of a report on this matter. It is essential to identify the issues that arise during resettlement and take measures to provide solutions to these problems, thereby preventing risks to individuals' lives.
- (e) According to the inspection report conducted under F.R 104 (4) regarding the cab of the Thumpane Divisional Secretariat involved in the accident on 27 August 2021, it had been recommended to recover Rs. 84,444 from the driver. However, it had not been recovered even by the end of the year under review. According to the inspection report under F.R. 101 (4), although the loss should be recovered from the driver, it has not been possible to charge the loss as both the driver, who has left the service, and his wife have proceeded abroad. Necessary legal actions should be taken promptly to recover the relevant funds.

5. Human Resource Management

Audit Observation	Comment of the Accpunting Officer	Recommendation
A comparison between the approved cadre and the actual cadre at the Kandy District Secretariat and 20 Divisional Secretariats as at 31 December 2023 revealed vacancies of 376 and an excess of 362 staff.	The excess and vacancies have been communicated to the Ministry of Public Administration and Home Affairs, the Provincial Councils and Local Government Ministry, and the Department of Management Services of the Ministry of Finance	Steps should be taken to inform the Ministry of Public Administration about the excess officers and to fill the vacancies.