

## **Head 337 – Department of Cinnamon Development - 2024**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

Head 337 - The audit of the financial statements of the Department of Cinnamon Development for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 summery report containing my comments and observations on the financial statements of the Department of Cinnamon Development was issued to the Accounting Officer on 09 May 2025 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department was issued to the Accounting Officer on 09 May 2025 in terms of Section 11(2) of the Audit Act. 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 Department of Cinnamon Development as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with the basis of preparation of the financial statements set out in Note 1.

#### **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 is for the financial statements are 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 qualified opinion.

#### **1.3 Emphasis of matter - Basis of preparation of financial statements**

The attention is drawn to Note 1 to the financial statements, which describes the basis of preparation of the financial statements. The financial statements have been prepared for the use of the Treasury and Parliament of the Department of Cinnamon Development in accordance with Government Financial Regulations 150 and 151 and Public Accounts Guideline No. 6/2024 dated 16 December 2024, as amended on 21 February 2025. Accordingly, these financial statements may not be suitable for other purposes. My report is intended only for the use of the Department of Cinnamon Development, the Treasury and the Parliament of Sri Lanka. My opinion on this matter is not modified.

#### **1.4 Responsibilities of 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 Government Financial Regulations 150 and 151 and Public Accounts Guideline No. 6/2024 dated 16 December 2024 as amended on 21 February 2025 for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Department 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 Department 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.

#### **1.5 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 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 judgment 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 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.

## **1.6 Comments on Financial Statements**

### **1.6.1 Accounting Deficiencies**

#### **(a) Property, Plant and Equipment**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(i) Steps had not been taken to assess and account for 21 units related to the 09 items of office equipment received by the Cinnamon Development Department from the Thurusavi Fund in the year under review.	The observation is accepted. After assessing the relevant assets, that the arrangements have been made to register them before 30 June 2025.	Steps should be taken to assess the relevant assets and capitalize them correctly.
(ii) Since the Cinnamon Research and Training Center has been transferred to the Cinnamon Development Department on 30 January 2024 by the Cabinet decision dated 24th January 2024, the 21 buildings, which had an area of 17,812 square feet, a water tank in the shape of a building with a volume of 1,125 cubic feet, inventory items related to 09 departments and 02 vehicles had not been valued and accounted for under the new department.	After assets have been properly transferred, that the arrangements have been made to assess the assets and record them in the books.	The relevant assets should be accurately valued and capitalized before preparing the next year's financial statements.

**(b) Non-maintenance of Registers and Books**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<b>(i) Fixed Assets Register</b>		
In accordance with paragraph 8.1 of the Public Accounts Guideline No. 2022/05 dated 13 December 2022, asset records had not been prepared and updated through the Fixed Assets module in the SIGAS program.	That the arrangements have been made to update and complete the asset register before 15 May 2025.	Formal action should be taken against non-compliant officers and urgent steps should be taken to update the fixed assets register through the fixed assets module in the SIGAS program.
<b>(ii) The Personal Payroll Register</b>		
A personal payroll register had not been maintained in accordance with Financial Regulation 453.	This is being prepared and it is scheduled to be completed by 30 April 2025.	Steps should be taken to take formal action against non-compliant officers and to promptly prepare an individual payroll register in accordance with Treasury and Audit Form 17 in accordance with Financial Regulation 453.
<b>(iii) Departmental Appropriation (Standard Expenditure) Ledger</b>		
A departmental appropriation (standard expenditure) ledger had not been updated in accordance with Financial Regulation 447.	That the expenditure ledger has been maintain up to date since the beginning of 2025.	Formal action should be taken against officers whose documents have not been updated and a Departmental Appropriation (Standard Expenditure) Ledger should be maintained in accordance with Common Form 138, incorporating the provisions of Financial Regulation 447.

**(iv) Bail Register**

A bail document containing the details of the officers and employees who were required to provide bail in accordance with Financial Regulation 891(1) had not been prepared.

Recommendations on bail amounts for officers have been submitted to the Ministry Secretary for approval. Arrangements have been made to prepare the bail documents before 31 July 2025.

A bail register should be prepared and maintained for officers required to post bail, containing the information specified in Financial Regulation 891(1).

**(v) Register of Liabilities**

A register of liabilities had not been maintained in accordance with Financial Regulation 214.

Steps have been taken to prepare the register of liabilities properly from 2025.

The register of liabilities should be prepared so that can be checked the liabilities regularly in accordance with financial regulations.

**(vi) Register of loan and Advance**

The Loan and Advance Register had not been prepared and maintained up to date in accordance with paragraph 05 of Public Accounts Circular No. 256/2017 dated 05 July 2017.

That the document has been updated as of 31 December 2024.

The formal action should be taken against non-compliant officials and a loan and advance register should be maintained continuously and updated based on the CC10 format in accordance with the relevant Public Accounts Circular.

**2. Financial Review**

**2.1 Imprest Management**

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A total of Rs.401,077 had been paid for 14 vouchers for which no imprests was requested in October of the year under review.	That the corrections have been made now with the connection of Treasury Operations Department.	Payments should only be made for vouchers for which imprest has been requested, any discrepancies should be corrected immediately and steps should be taken to strengthen internal controls in this regard.

- |     |  |   |  |
|-----|--|---|--|
| (b) | During the year under review, 18 percent of the imprests received, that is Rs. 27.80 million, had been remitted back to the Treasury due to the Department not properly applying for imprests. | That we will ensure that such omissions not occur in any way in the future. | Applying for the imprests should be done with due care and the Accounting Officer should monitor this closely. |
|-----|--|---|--|

## 2.2 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although a provision of Rs. 70 million had been made through supplementary estimates during the year under review for the Building and Construction Expenditure Subject (2104), 33.56 percent of the supplementary estimates provision, that is Rs. 23.49 million, remained at the end of the year. It was observed that these provisions remained as a result of requesting supplementary provisions without specifically identifying the bills for the money required to be spent further in accordance with Financial Regulation 78 (3)(e)(II).	That there was a surplus of provisions due to insufficient bills being submitted as expected.	Monitoring should be strengthened to complete projects on the planned deadline and allocations should be requested accordingly.
(b) The provisions of total Rs.27.33 million related to 20 recurrent expenditure subjects and a provisions of total Rs.32.64 million related to 07 capital expenditure subjects excluding capital expenditure subject 2104 had been remained.	It is stated that there are remaining provisions due to reasons such as not being able to complete all the tasks related to the action plan.	An action plan should be prepared that can be implemented in the coming years considering the resources and time available in the institution and the necessary provisions should be accurately estimated accordingly.

## 2.3 Incurring of Liabilities and Commitments

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Payments of Rs. 252,322 for goods and services purchased by the Department during the year under review had been made in January and February 2025. It was observed that these payments were not recognized as liabilities in the year under review as they were not included in the Statement of Liabilities and Accounts Receivable (Note III) of the financial statements. It was also observed that this is not consistent with Public Accounts Circular No. 255/2017 dated 27 April 2017.	Due to an oversight, it could not be included to the statement of liabilities.	Liabilities should be disclosed in accordance with public accounting circulars and an internal control system should be developed to identify all liabilities at the end of the year.

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

<b>Observation</b>	<b>Reference to the Amount</b>	<b>Non-compliance</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
	<b>Rs.</b>			
	<b>Laws, Rules and Regulations</b>			
(a) Financial Regulations 138 of the Democratic Socialist Republic of Sri Lanka	49,030	According to the sample inspection conducted, 13 vouchers had been paid without expenditure certification.	The observation is accepted.	Steps should be taken to deal with responsible officers in a proper manner and to strengthen internal control and inspection.
(b) Finance Regulation 756(6) as amended by Public Finance Circular No. 01/2020 dated 28 August 2020		Although the board of survey activities should have been completed before 31 January 2025, the Department had not completed the	That the it is planned to complete the survey work by 5 May 2025.	The board of survey should be completed promptly and a copy of the report should be submitted to the Auditor General, and a program

board of survey activities for the year under review by 6 March 2025, that is the audit date.

should be prepared to comply with the circular requirements in the future.

(c)	Section 3.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016	It was observed that a fuel combustion test had not been conducted as per the circular on the 02 vehicles of the Cinnamon Research Institute under the department.	That the arrangements have been made to complete the fuel inspections of the 02 vehicles by 31 May 2025.	Steps should be taken to promptly conduct vehicle fuel combustion tests and report them to the audit, and to act in accordance with the circular provisions in the future.
-----	--	--	--	--

### 3. Operating Review

#### 3.1 Delays in Implementation of Projects

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	Although an expenditure of Rs.83.10 million was incurred for the construction of the National Cinnamon Industry and Cultural Promotion Center in previous years and the year under review, the relevant project had not been completed by the end of the year under review, and it was observed that its physical progress was only 72 percent.	Since the construction work could not be completed on the scheduled date as expected, the extension of the date has been made in accordance with 8.4 of ICTAD/SBD/02.	The project should be monitored closely to ensure that construction is completed as expected, and the accounting officer should be checked financial and physical progress regularly.



- |     |  |  |   |
|-----|--|--|---|
| (b) | Attention had not been paid to the implementation of the project to improve the quality of cinnamon products through the use of appropriate technology and to provide standard certificates for value-added product processing centers during the year under review. | It is difficult to complete the project in 3 months as this will take a considerable amount of time. | A formal plan should be prepared to implement the project as expected and steps should be taken to act accordingly. |
|-----|--|--|---|

### 3.2 Procurement

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	It had been decided to provide saplings on a subsidy basis for planting abandoned saplings on cultivated lands under the program to increase the productivity of existing cinnamon plantations. As of the audit date of 08 January 2025, 1,006,970 cinnamon plants worth Rs.29.14 million had been provided to 1,135 beneficiaries and the plants had been purchased from the nearest plant nurseries to the beneficiaries without following the prescribed procurement procedures. Furthermore, no steps had been taken to select beneficiaries under approved farmer organizations for this program.	That the considering transportation costs, the beneficiary has been allowed to select the desired plants from a plants nursery and members of farmer organizations have been informed about the selection of beneficiaries.	Formal action should be taken against officers for not acting in accordance with the Procurement Guidelines and for not selecting beneficiaries through farmer organizations.

### 3.3 Assets Management

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	No steps had been taken to take over 04 vehicles used by the Department with an assessed value of Rs. 21.87 million and 03 other vehicles whose assessed value was not identified.	That the relevant steps for the takeover are already underway.	Action should be taken without delay to take over the vehicles used by the department from the relevant institutions.

- |     |  |  |   |
|-----|--|--|---|
| (b) | Action had not been taken in the last 10 years to generate income from the 7.5 acres of cinnamon cultivation land of the Cinnamon Research and Training Center under the Department.   | According to the researchers' decision, approximately 10 acres were leased out.  | An urgent program should be developed to generate income from the land used for research and training activities.   |
| (c) | Although cinnamon plantations under normal management should be harvested at least once a year, due to the failure to harvest the cinnamon crops in the fields of the Cinnamon Research Institute in the last 10 years in 2018, 2020, 2022, 2023 and 2024, an income of approximately Rs. 10.51 million had been lost.   | Harvesting was begun by the tenderor on 17 April 2025. Accordingly, that the steps will be taken to ensure proper harvesting in the coming period. | Formal actions should be taken against officers who have not taken steps to generate income, and a formal program should be prepared to obtain maximum income from cinnamon cultivation in the field. |
| (d) | According to the recommendations of the Cinnamon Development Department, a cinnamon plantation of 17.5 acres should have 63,000 cinnamon bushes, and according to the information provided to the audit, there was a shortage of 45,000 plants on the Cinnamon Research Institute land. The Cinnamon Research Institute, which should have maintained the cultivation in an exemplary manner, had lost significant income that could have been obtained due to the fact that the cinnamon cultivation on this land was not well managed. | That the work is currently underway to identify shrubs that die with time and planting the waste plants.   | As a research institute, actions should be taken to maintain exemplary cultivation.   |

### 3.4 Management Inefficiencies

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A private residential building haad been used for the establishment of the Cinnamon Development Department and office facilities for a period of 3 years from December 6, 2023 to December 5, 2026 at a monthly rent of Rs.300,000. But the need to construct a permanent building for the institution had not been identified from the 2025 action plan.	That it was acquired on a rental basis for 3 years due to the lack of a suitable government building.	Urgent steps should be taken to comply with the government's policy of maintaining government offices within government buildings.
(b) During the year under review, various constructions had been carried out in the rented building where the head office is located at a cost of Rs. 1.32 million. It was observed during the audit that without establishing the department in a permanent government building, the expenses incurred in this manner could become wasteful expenses. Furthermore, information regarding the agreements reached with the lessor of the building regarding this construction had not been submitted to the audit.	That the all of these constructions have been carried out in a way that can be dismantled and removed, so they are not wasteful expenses.	Steps should be taken to immediately move the department to a suitable government building in order to operate economically.

#### **4. Good Governance**

##### **4.1 Providing Services to the Public**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) As of 9 January 2025, 4,820 different tests belonging to 03 categories could not be conducted due to being inactive for a period of time from 2021 to 2024 of the 06 items of machinery and equipment worth a total of Rs. 25.35 million and 02 items of machinery and equipment for which the purchase value was not stated received to the Cinnamon Research Institute in 2016, 2017 and 2019 use for the collection and analysis of data related to cinnamon cultivation.	That the repairs to restore the relevant equipment have been included in the procurement plan for the year 2025 and that necessary steps are being taken to repair the non-functional equipment and generate income again.	An urgent program should be implemented to promptly repair these machines and equipment and conduct tests to contribute to the collection and analysis of information needed for cultivation.
(b) It was observed that there is a questionable situation in successfully completing the research and obtaining the expected benefits due to the lack of necessary equipment, lack of necessary training, and problems with commercializing the tested products.	Accept the observation.	A formal program should be prepared promptly to quickly resolve issues related to the necessary equipment, providing necessary training and commercialization of the tested products for research within a specific time frame and to achieve institutional objectives.

##### **4.2 Internal Audit**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) In accordance with the provisions of Regulations 133 and 134 of the Financial Regulations Code of the Democratic Socialist Republic of	That the internal auditor position is vacant and there are not enough officers.	An internal audit section should be established promptly in accordance with the relevant provisions.

Sri Lanka and Section 38(1) (f) of the National Audit Act, No.19 of 2018, an Internal Audit Unit had not been established and the position of Internal Auditor remained vacant until now.

## 5. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) It was observed that there were 45 vacancies in the approved posts in the approved staff plan of the Department of Management Services. It is also observed that the vacancies mainly in the position of Cinnamon Development Officer, it is a hindrance in achieving organizational objectives.	It is stated that the recruitment has been delayed as the recommendations have been forwarded to the Public Service Commission for recruitment, but the recruitment procedure has not yet been approved.	Steps should be taken to promptly approve the recruitment procedure and accordingly that, to recruit for essential positions to achieve institutional objectives or to fill essential vacancies in the department by managing institutional redundancies and deficiencies in accordance with government policies..
(b) No one had been employed for the posts of Administrative Officer, Accountant (Permanent), and Technical Officers, who perform the main functions related to the operational and administrative activities of the Department, and there were 05 vacancies for the officers related to those posts. Furthermore, an officer had been attached to the position of Accountant on an acting basis.	That it has been directed to the relevant Ministry of Public Administration, Provincial Councils and Local Government to attach officers.	Steps should be taken to promptly assign officers to key positions relevant to achieving organizational objectives.