

Excise Rewards Fund – 2019

1.1 Qualified Opinion

The audit of the financial statements of the Excise Rewards Fund for the year ended 31 December 2019 comprising the statement of financial performance, statement of changes in equity 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(3) 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the Excise Rewards Fund as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards. (SLAuSs) My responsibilities under those standards are further described in Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Excise Rewards Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and either intend to liquidate the Fund or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

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

1.4 Scope of Audit (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, they could reasonably be expected to influence the economic decisions of users taken 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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, misinterpretations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organizations, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “device and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

Non- compliance with the reference to particular Standard	Management Comment	Recommendation
Sri Lanka Public Sector Accounting Standard 7		
Even though the value of the lands and buildings had been stated as a sum of Rs.47,134,000, it had been only the value of the building. However, according to Sri Lanka Public Sector Standard 7, the land on which the buildings are located, had not been estimated and had not been brought to account.	It had been noted to re-valuate the lands that had been acquired from the Divisional Secretariat and, to enter into books.	Properly confirming the ownership, making estimates and accounting of the land on which the buildings are located.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Sums of Rs.8,186,592 and Rs.653,325 respectively payable to the Consolidated Fund, of the Mediation Fees and of the cigarette fines receivable to the Department had been brought to account as payable income.	Action would be taken to rectify in preparing accounts this year.	Providing the necessary provisions to prepare accounts on accrued basis.

1.5.4 Unexplained Differences

Audit Issue	Management Comment	Recommendation
Mediation fees receipts and the cigarette fines receipts relating to the year under review as per the Treasury Printouts totaled Rs.256,749,152 and it had been a sum of Rs.256,525,852 as per the Monthly Accounts Summaries. As such, a difference of Rs.223,300 was observed.	It had occurred due to crediting the mediation charges earned by the Regional Offices erroneously to the General Deposit Account.	Taking actions to make reconciliations between the Treasury Printouts and with the Monthly Summaries.

1.5.5 Documentary Evidence not made available for Audit

Audit Issue	Management Comment	Recommendation
Board of Survey Reports had not been furnished for the fixed assets totalling Rs.72,393,098 in the statement of financial position.	It had been instructed to maintain a separate register on the assets of the Excise Rewards Fund. As such, it is kindly informed that action would be taken to furnish the Board of Survey Reports, in the future.	Accounting by way of confirming the ownership of the land on which the building is located and by way of making a proper estimate and carrying out Board of Survey in terms of the provisions in the Circulars.

2. Financial Review

2.1 Financial Results

- (a) The operating result of the year under review amounted to a deficit of Rs.160,411,245 and the corresponding surplus in the preceding year amounted to Rs.36,759,028. Therefore, a deterioration amounting to Rs.197,170,273 of the financial result was observed. The increase in the payment of rewards by a sum of Rs.262,001,814 or by 258 per cent as compared with the preceding year had been the main reason for this deterioration. Making a payment of the salary of 09 months to all the Officers of the Department in the year under review without a proper approval and in an illegal manner, without considering the income received to the Excise Rewards Fund, is indicated by this deterioration.

- (b) A deterioration amounting to Rs.160,411,245 in comparing the net assets balance of the Excise Rewards Fund with the preceding year and, a deterioration amounting to Rs.214,749,066 in the Year End Cash Balance in the financial statements, was observed.

3. Operational Review

3.1 Performance

The following observations are made.

Audit Issue -----	Management Comment -----	Recommendation -----
(a) The non- achievement of the objectives of the Excise Rewards Fund, established in terms of the Excise Notice No.818 dated March 1994, had been as follows.		
(i) Even though a sum of Rs.2,500,000 had been provisioned for the year under review for those functions, without preparing a plan for the training and the academic activities of the Officers, any training activity whatsoever had not been organized. Moreover, the provisions that were being approved, a sum of Rs.2.5 million each, for the preceding two years as well, for this function, had been saved.	A proper plan had been prepared for the training of the Officers and this money was saved due to several reasons such as not conducting the planned courses on unavoidable reasons, not being able to obtain the approval necessary for the payment of the lecture fees for the lecturers. Action would be taken in the forthcoming year to accurately prepare the plans by avoiding those deficiencies.	Conducting training programmes annually for improving the productivity of the Officers and preparing estimates at realistic level.

(ii) A sum of Rs.200,000 had been provisioned for the works of appreciation, acts of bravery and for special receptions, an objective of the Fund and, this provision had been saved.

Any actions such as the works of appreciation, acts of bravery or any special receptions had not been reported in the year 2019 and it is kindly informed that a sum of Rs.210,000 had been paid in the year 2019 for special duties or for special raids.

Paying sufficient attention on the objectives of the Fund and preparing he estimates at realistic level.

(iii) The raids carried out in the year under review and in several preceding years as per the Performance Reports furnished, had been as follows.

Referring the licensees for carrying out their businesses within the legal frame work with proper control by the constant supervision of the licensed places by the Excise Officers had been the reason for the decrease in the number of technical crimes. As such, a decrease in the breaches of the conditions in excise licensed places is seen. The number of technical raids had been decreased due to this reason.

Carrying out a proper examination continuously on the licensed places.

Year	Number of raids	Decrease as compared with the preceding year
2019	3623	61
2018	3684	631
2017	4315	278
2016	4593	339
2015	4932	387

Even though rewards had been paid based on the fines received from the number of raids of the preceding years, it had been decided to pay 75 per cent of the basic salary on attendance to every Officer in the year under review. As such, decrease in the number of raids in technical crimes in 2019 was observed.

(iv) Only an amount of 75 per cent of the receipts is entitled for the payment of rewards of the mediation fees receipts in terms of Paragraph No.7 of the Schedule mentioned in the Excise Notice. However, even though the

A Cabinet Memorandum had been prepared for the payment of allowances for all the Officers who perform their duties in the Department and had been furnished for obtaining the

Taking action in terms of Excise Notice No.818

mediation fees receipts had been a sum of Rs.114,250,126 within the period from the month of July to 31 December of the year under review, a sum of Rs.175,846,568 had been paid exceeding the mediation fees receipts on the receipt of rewards being a sum of Rs.290,096,694.

approval and this allowance had been paid after raising awareness of the Treasury in this regard.

(b) An amount of 72 per cent of the number of events of charges (raids) in the year under review as per the range of which the mediation fees are being charged had been general wrongs in terms of the Excise Circular relating to Technical Crimes No.3/2011 of 01 August 2011 and, that amount relating to the breaches of the conditions of the main category had been a low amount of about 28 per cent.

Minimizing the wrongs committed in the licensed places by increasing the mediation fees by deploying more Supervising Officers and by new Circulars, this trend of decrease could be seen on the efficiency of the Officers being remained at a high level.

Action would be taken to confirm that wrongs had not been committed, by taking action to investigate the places that the licenses had been received, by making a random selection by higher Officers.

(c) Even though action should be taken to establish a Tobacco Rewards Fund from a portion of 25 per cent of the cigarette fines received as per Paragraphs 17(a) I and II of the Tobacco Tax Act No.8 of 1999, action had not been taken to establish such a Fund even by 31 December 2019.

Actions necessary for the establishment of a Tobacco Rewards Fund is being compiled at the moment.

The establishment of a Tobacco Rewards Fund in terms of the provisions.

3.2 Management Activities

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) An amount equal to the amount that is annually depreciated for fixed assets are being credited to the Depreciation Reserve Fund in the Treasury and even though a sum of Rs.56,284,583 remained in that Fund as at 31 December 2019, action had not been taken to deploy the funds for effective functions.	It is being instructed to deploy the balance in the Depreciation Reserve Fund for effective funds in the future.	Taking action to deploy the Depreciation Reserve Fund for effective functions.

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| <p>(b) The surplus of the Fund amounting to Rs.36,759,028 in the preceding year had been a deficit amounting to Rs.160,411, 245 in the year under review due to making a payment of a salary of 09 months as rewards to all the Officers of the Department without considering the income received to the Excise Rewards Fund, without a proper approval and in an illegal manner. It had been a deterioration of 258 per cent as compared with the preceding year.</p> | <p>A Cabinet memorandum had been furnished for the approval of these payments and the payments had been made on the approval of the Administrative Committee.</p> | <p>Taking action in terms of Excise notice No.818 and properly reviewing the relevant procedure.</p> |
| <p>(c) Even though the ratio between the mediation fees receipts and the payment of rewards should be 4:3 in terms of the Excise Notice No.818 dated 04 March 1994, it had been observed that it had been acted contrary to the Excise Notice by that ratio being 1:1.92, indicating an unusual condition, as per the revised Estimate.</p> | <p>It is kindly informed that the Estimate had to be revised in two instances due to taking action to make the payments of rewards for all the staff serving in the Department.</p> | <p>Formulating with a proper plan and at a realistic level and according to a proper procedure in preparing Estimates.</p> |
| <p>(d) Various changes had occurred in each grade of posts of the current staff of the Department and its functions with the exceeding of 25 years since the implementation of the Excise Notice No.818 of 4 March 1994, by the year 2019. As such, it was not observed that the attention of the parties responsible had not been paid to revise this Excise Notice, considering the broadening of the functions of the Department. Moreover, it was observed in the audit that this Rewards Scheme should be improved in a manner that the adverse effect made towards the Government Revenue due to the illegal acts and that, it remains that, it should be approved as a proper written procedure.</p> | <p>A Committee is being appointed for revising the Excise Notice No.818 of 01 March 1994 at the moment and action is being taken relating thereto.</p> | <p>Properly revising the Excise Notice.</p> |

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Issue	Management Comment	Recommendation
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It was observed that the Budget had not been made an effective instrument of management control on a sum of Rs.39,700,000, the estimated value relating to four Expenditure Objects being saved.	Action is being taken to avoid the variances in the Budget as much as possible.	Preparing the Budget with a plan and at a realistic level, within the time frame and, acting accordingly.