

Excise Rewards Fund - 2013

The audit of financial statements of the Excise Rewards Fund for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the income and expenditure account, the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements 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 Section 1(iii) of the Excise Notification No.818 dated 4 March 1994 published under Section 58 of the Excise Ordinance No. 8 of 1912. My comments and observations on the aforesaid financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund for the preparation and fair presentation of the financial statements 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 internal control of the Fund. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Excise Reward Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

2.2 Comments On Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.47,134,000 out of the Fund had been paid to the North- Western Council for the construction of buildings at the Panadaragama Training school as at 31 December 2013 and the expenditure incurred out of that sum amounted to Rs.7,939,265. Even though the expenditure incurred by the North-Western Council and the remaining amount should be brought to the accounts as the work in progress and the payment of advances respectively, without doing so, the entire amount had been brought to the account as fixed assets.
- (b) Even though a vehicle in which the net value amounted to Rs.5,880 had been sold to the amount of Rs.1,428,000, without taking into consideration the profit of the sale the net value of the asset had been further shown in the financial statements. The total amount received from the sale of assets had been remitted to the Treasury.

2.2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Statutory Provisions <hr/> Tobacco Tax Act, No. 8 of 1999 Section 17	Out of the fines collected under the Tobacco Tax Act, 25 per cent can be used for the payment of rewards. According to Section 17(ii) of the Act, a Reward Fund according to a scheme proposed by the Minister and under the control of the Commissioner General of Excise should be established. However, without doing so, the receipts of the tobacco fines and the payments for the rewards had been brought to the accounts under the Excise Reward Fund.

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

Financial Regulations 756

A physical verification of the fixed assets valued at Rs.70,809,884 had not been conducted as at 31 December 2013.

(c) Treasury Circulars

(i) Treasury Circular No. IAI/2002/02 dated 28 November 2002

A Register of Fixed Assets had not been maintained for computers, computer accessories and softwares.

(ii) Treasury Circular No.842 of 1978

A Register of Fixed Assets had not been maintained for the assets purchased under the Excise Reward Fund.

3. Financial Review

3.1 Financial Results

The operations of the Fund during the year under review had resulted in a net surplus of Rs.44,957,705 as compared with the corresponding net surplus of Rs.19, 769,754 for the preceding year, thus indicating an increase of Rs.25,187,951 in the financial results for the year under review. The increase of the overall receipts of the Fund by Rs.28,180,492 or 27 per cent as compared with the preceding year had been the main reason for the increase in the surplus.

4. Operating Review

4.1 Performance

An income of Rs.129,143,113 had been earned from 6,420 raids on excise technical offences in the year under review and an income of Rs.99,161,671 had been earned from 4,793 technical offences in the preceding year. Accordingly, an increase in the income earned from the raids on excise technical offences by Rs.29,981,442 or 30 per cent could be observed during the year under review as compared with the preceding year.

5. Accountability and Good Governance

5.1 Budgetary Control

Even though a sum of Rs.50,000 for sports, recreation and welfare activities and a sum of Rs.200,000 for acts of bravery or acts of special recognition had been allocated in terms of the Section 4.5 of the Excise Notification No.818 dated 04 March 1994, action had not been taken to make payment from the fund in respect of such acts reported in the year 2013.

5.2 Assets Management

Even though an amount equal to the annual depreciation value of the fixed assets had been credited to the Depreciation Reserve Fund No.6000/0000/00/0008/0051/000 of the Treasury, in the purchase of fixed assets valued at Rs.5,992,438 during the year under review the relevant payment had been made only from the Excise Reward Fund without utilizing the said depreciation reward fund.

5.3 Irregular Transaction

For the purpose of constructing the hostel and the computer building of Panadaragama training school, a sum of Rs.37,940,00 and Rs.9,194,000 respectively had been paid to the North-Western Provincial Council from the Excise Reward Fund. Nevertheless, action had not been taken to recover the balance of Rs.5,037,226 remained after incurring expenditure for the construction even as at 31 December 2013.

5.4 Management Weaknesses

An approved written method had not been prepared for awarding rewards for the Excise Officers, information providers and the other person from the "Excise Reward" Fund established in terms of the Excise Notification No.818 dated 04 March 1994, even as at 31 December 2013.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Excise from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Establishment of the Reward Fund under the Tobacco Tax Act
- (c) Assets Control