

## **Excise Rewards Fund of the Department of Excise - 2014.**

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The audit of financial statements of the Excise Rewards Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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(3) 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 58A 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**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting standards 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**

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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**

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

**2. Financial Statements**

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**2.1 Qualified Opinion**

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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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**2.2 Comments On Financial Statements**

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**2.2.1 Sri Lanka Public Sector Accounting Standards**

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The financial statements of the year under review had been prepared on the cash basis contrary to the Sri Lanka Public Sector Accounting Standard 01.

**2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Out of the advances amounting to Rs.47,134,000 provided to a Provincial Council in the year 2013 for the construction of Training school buildings, only a sum of Rs.39,984,096 had been spent as at 31 December in the year under review. Instead of the expenditure incurred by the Council and the remaining amount of Rs.7,149,904 should be brought to accounts as the work in progress and advances respectively, the entire amount had been brought to accounts as fixed assets.
- (b) Even though an expenditure should not be set off against an income, except in a special occasion, the settlement receipts of the year under review had been set off against such payments.
- (c) The settlement charges aggregating to Rs.1,615,247 in the year under review had been credited to the Revenue Head of the Treasury instead of being accounted as an income of the Fund.

**2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
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(a) Statutory Provisions	
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Section 17 of the Tobacco Tax Act, No. 8 of 1999	Out of the fines collected under the Tobacco Tax Act, ¼ should be transferred to the Tobacco Reward Fund. In terms of Section 17(ii) of the Act, a Reward Fund as per a scheme, proposed by the Minister and under the control of the Commissioner General of Excise should

be established. However, contrary to that, the receipts of the tobacco had been brought to the accounts under the Excise Reward Fund as payable to the Tobacco Rewards Fund.

(b) Treasury Circulars

(i) Circular No.842 dated 19  
December 1978

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

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

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

**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.63,375,039 as compared with the corresponding net surplus of Rs.44,957,705 for the preceding year, thus indicating an increase of Rs.18,417,334 in the financial results for the year under review. The increase of settlement receipts charges of the Fund by Rs.33,470,068 as compared with the preceding year had been the main reason for the increase in the surplus.

**4. Operating Review**

**4.1 Performance**

The following observations are made.

(a) An income of Rs.163,101,331 had been earned from 5,319 raids on excise technical offences in the year under review and an income of Rs.129,143,113 had been earned from 6,420 technical offences in the preceding year. Accordingly, an increase in the income earned from the raids on excise technical offences by Rs.33,958,218 or 26 percent was observed during the year under review as compared with the preceding year.

(b) Even though 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 2014.

**4.2 Management Inefficiencies**

Even though an approved written methodology should be prepared for awarding rewards for the Excise Officers, informants and the payments of rewards for other persons and selection of officers for acts of bravery or acts of special recognition from the “Excise Reward” Fund

established in terms of the Excise Notification No.818 dated 04 March 1994, such methodology had not been prepared even as at 31 July 2015.

**5. Accountability and Good Governance**

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**5.1 Action Plan**

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An Annual Action Plan for the year under review in terms of the Public Finance Circular No.01/2014 dated 17 February 2014 had not been prepared.

**5.2 Assets Management**

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Even though an amount equivalent to the annual depreciation value of fixed assets had been credited to the Depreciation Reserve Fund of the Treasury, in the purchase of fixed assets valued at Rs.14,123,123 during the year under review the relevant payment had been made only from the Excise Reward Fund without utilizing the said depreciation reserve fund.

**6. Systems and Controls**

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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) Assets Control