

The general information on the Accounts of the Department appear in paragraphs 1 and 2 of the Report and the Audit Observation on the Head appear from paragraph 3 onwards.

1.1 Scope of Audit

The audit of the Appropriation Account, the Revenue Account and the Reconciliation Statements including the financial records , reconciliation statements , books, registers and other records of the Department of Excise for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Commissioner General of Excise of the Department of Excise on 30 October 2015. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibilities of the Chief Accounting Officer and the Accounting Officers for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officers are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts, Revenue Accounts and Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. The responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Department of Excise amounted to Rs. 730.45 million and out of that, a sum of Rs. 698.29 million had been utilized by the end of the year under review. Accordingly, Rs. 32.16 million out of the total net provision of the Department or 4.4 per cent had been saved.

| Expenditure | As at 31 December 2014 | | | Saving as a Percentage of Net Provision |
|-------------|------------------------|--------------|--------------|---|
| | Net Provision | Utilization | Savings | |
| | Rs. Millions | Rs. Millions | Rs. Millions | |
| Recurrent | 547.95 | 547.87 | 0.08 | 0.01 |
| Capital | 182.50 | 150.42 | 32.08 | 17.58 |
| Total | 730.45 | 698.29 | 32.16 | 4.40 |

2.2 Revenue Accounts

Estimated and Actual Revenue

Revenue amounting to Rs. 74,035.00 million had been estimated under 2 Revenue Codes for the year 2014 and Revenue totalling Rs. 69,123.60 million had been collected during the year under review. Accordingly, 93.36 per cent of the estimated Revenue had been collected. Details appear below.

| Revenue Accounting Officer | Revenue Codes | Revised Estimate of Revenue | Actual Revenue | (Under) /Over collection | Percentage |
|--------------------------------|---------------|-----------------------------|----------------|--------------------------|------------|
| | | Rs. Millions | Rs. Millions | Rs. Millions | |
| Commissioner General of Excise | 10,02.04.01 | 74,000.00 | 69,087.99 | (4,912.01) | 93.00 |
| - do - | 10.02.06.00 | 35.00 | 35.61 | 0.61 | 102.00 |
| | | 74,035.00 | 69,123.60 | (4,911.40) | 93.36 |

2.3 Advance Accounts

2.3.1 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advance to Public Officers Account of the Department of Excise and the actuals are given below.

| Item Number | Expenditure | | Receipts | | Debit Balance | |
|-------------|---------------|-------------|---------------|-------------|---------------|-------------|
| | Maximum Limit | Actual | Minimum Limit | Actual | Maximum Limit | Actual |
| | Rs.Millions | Rs.Millions | Rs.Millions | Rs.Millions | Rs.Millions | Rs.Millions |
| - | - | - | - | - | - | - |
| 24801 | 32.00 | 25.43 | 22.00 | 25.23 | 195.00 | 129.84 |

2.4 Imprest Account

The total balance of the Imprest Account of the Department of Excise as at 31 December 2014 amounted to Rs. 315.09 million.

2.5 General Deposit Accounts

The total balances of the General Deposit Accounts of the Department of Excise as at 31 December 2014 amounted to Rs. 315.09 million. Details appear below.

| Name of Deposit | Deposit Account Number | Balance as at 31 December 2014 |
|---------------------------|----------------------------|--------------------------------|
| ----- | ----- | ----- |
| | | Rs. Millions |
| General Deposits | 6000/0000/00/0015/0128/000 | 31.62 |
| Depreciation Reserve Fund | 6000/0000/00/0008/0051/000 | 24.53 |
| Reward Fund | 6000/0000/00/0006/0060/000 | 258.94 |
| Total | | ----- 315.09 ----- |

2.6 Audit Observation

According to the Financial Recording and the books for the year ended 31 December 2014, and subject to the observation appearing in the Management Audit Report referred to in paragraph 1.1 of this Report the Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Department of Excise have been prepared satisfactorily. The material and important observations out of the observations appearing in the management Audit Report appear in paragraph.

3. Head 248 – Department of Excise

3.1 Non- maintenance of Registers and Books

It was observed during the course of audit test checks that the Department had not maintained certain registers out of the followings and had not maintained other registers in the updated manner.

| Type of Register ----- | Relevant Regulation ----- | Observation ----- |
|---|--|----------------------|
| (i) Register of Fixed Assets | Treasury Circular No. 842 of 19 December 1978 | Not updated |
| (ii) Register of Fixed Assets on Computers, Computer Accessories and Software | Treasury Circular No. IAI/2002/02 of 28 November 2002 | Not updated |
| (iii) Register of Personal Emoluments | Financial Regulation 453 | Not maintained |
| (iv) Departmental Appropriation (Votes) Ledger | Financial Regulation 447 | Not updated |
| (v) Attendance register of the Procurement Committee and the Technical Evaluation Committee | Government Procurement Gridlines Gridline 2.11.2 | Not maintained |

3.2 Lack of Audit Evidence -----

The following observations are made.

- (a) The original registration books of 5 motor vehicles of the Department had not been furnished to Audit.
- (b) Even through the file prior to the year 2014 on the construction of the Excise Station, Nuwara Eliya was requested to audit purposes that file had not been furnished to audit even by 30 September 2015.

3.3 Revenue Accounts -----

The functions relating to the preparation of Revenue Estimations for 2 Revenue Codes, collection and accounting and furnishing Revenue Accounts had been devolved on the Commissioner General of Excise as the Revenue Accounting Officers. The following deficiencies were observed during the course of test audit of those Revenue Codes.

(a) Revenue Code 10.02.04.01 – Excise Duty (Liquor)

The following observations are made

- (i) Revenue Estimation had been prepared for the collection of revenue on Excise Duty (liquor) amounting to Rs. 74,071,000,000 during the year under revenue. That revenue estimate had been revised to Rs.74,000,000,000 and Rs. 69,087,998,770 had been collected up to the end of the year under revenue. That amounted to 93 per cent of the revised estimate. As such the Department had failed to achieve the expected revenue target by a aim of Rs. 4,912,001,230
- (ii) According to Financial Regulation 85(2) (a), if it is found necessary to vary the estimates subsequently, the Chief Accounting Officer should report that to the Director General of Fiscal Policy with reasons. Therefore, the evidence in support that the Department had taken such action had not been furnished to audit.
- (iii) The Withholding Tax recovered in the purchase of spirit locally and on import, is allowed to be set off against the Excise Duty payable on the liquor produced by using the spirits and the Withholding Tax relating to the stock of spirits remaining as at the end of the year should be set-off during the ensuing years. But the Withholding Tax of Rs.511,467,525 relating to the stock of spirits as at 31 December 2014 had been brought to account as revenue for the year under review.
- (iv) According to the records of the Revenue Division of the Department, the Withholding Tax allowed for set off during the year under review amounted to Rs. 2,767,065,356 whereas according to the records of the Accounts Division that amounted to Rs. 2,786,844,177. Thus a difference of Rs.19,778,821 existed.
- (v) The grant of export duty by the Department for the liquor exported are based only on the Customs Exports Return produced by the exporter. A methodology for ascertaining the actual quantity exported had not been formulated by the Department even up to the end of the year under review.
- (vi) The arrears of revenue which amounted to Rs. 1,527,265,037 as at 31 December 2013 had increased by a sum of the Rs. 7,712,426 to Rs. 1,534,977,463 as at 31 December 2014.

(b) Revenue Code 10.02.06.00 – Tobacco Tax

The following observations are made.

- (i) The Tobacco Tax for the year under review had been estimated for Rs. 38,000,000 and subsequently that had been revised to Rs. 35,000,000. Revenue amounting to Rs. 35,606,823 or 102 per cent of the revised estimate had been recorded by the end of the year under review.
- (ii) The Department issues licenses for the export of cigarettes and a methodology to ascertain the cigarettes exported had been actually exported had not been formulated by the Department.
- (iii) Even though the Department issues licenses for the import of beedi leaf for the production of beedies a methodology to ascertain the quantity of beedi leaf imported had not been formulated by the Department

3.4 Reconciliation Statement of the Advance to Public officers Account

The following deficiencies were observed during the course of test checks of the Reconciliation Statement of the Advance to Public Officers Account Item No.24801 as at 31 December 2014.

- (a) According to the Reconciliation Statement as at 31 December 2014 furnished to audit, loan balances amounting to Rs. 2,632,985 outstanding in the ranges of 01 year to 10 years existed. Out of those outstanding loan balances the follow up on the recovery of balances amounting to Rs. 1, 787,145 had been at a weak level
- (b) The loan balances amounting to Rs. 204,978 of two officers interdicted more than 10 years ago and loan balances amounting to Rs, 234,901 of three officers interdicted more than 4 years ago included in the outstanding loan balances as at 31 December 2014 had not been recovered even by 30 September 2015.
- (c) A sum of Rs. 191,160 remained receivable as at 31 December 2014 from officers who had vacated posts. Out of that, a sum of Rs. 190,160 had been outstanding over periods exceeding 04 years.

3.5 Good Governance and Accountability

3.5.1 Annual Action Plan

Even though the Department should prepare an Annual Action Plan in terms of the Public Finance Circular No.01/2014 dated 17 February 2014, the Department had prepared an incomplete Action Plan for the year under review.

3.5.2 Annual Procurement Plan

The Annual Procurement Plan for the year 2014 in terms of the National Budget Circular No. 128 of 24 March 2006 had not been prepared to cover all Divisions.

3.6 Assets Management

The following deficiencies were observed during the course of audit test check of the assets of the Department.

- (a) The Department had irregularly used two motor vehicles belonging to other institutions.
- (b) A survey of the motor vehicles of the Department for the year under review had not been carried out and report furnished to audit.

3.7 Non – compliances

(a) Non-compliance with Laws, Rules and Regulations

Instances of non- compliance with the provisions in Laws, Rules and Regulations observed during the course of audit test checked are analyses bellow.

| Reference to Laws, Rules and Regulations ----- | Non – compliance ----- |
|---|---|
| (i) Statutory Provisions ----- | |
| Tobacco Tax Act, No. 08 of 1999 – Section 17 | Even though Tobacco Tax Reward Fund should be established, action had not been taken to so establish. |

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

| | |
|---|---|
| Financial Regulation 85 (2)(b) | The Chief Accounting Officer had revised the Revenue Estimates without informing the Director General of Fiscal Policy. |
| Financial Regulation 104(4) | Full report on the losses caused to the Department in two instances had not been furnished within three months from the date of the loss |
| Financial Regulation 389(b) | A document on the handover of cheques containing the cheque number, amount, whether crossed or not, paying Bank, voucher number and date of handover had not been maintained. |
| Financial Regulation 756 | Board of Survey had not been appointed on or about 15 December 2014. |
| Financial Regulation 1645(a) | Log Books had not been maintained for the motor vehicles of the Department. |
| Financial Regulation 1646 | The Daily Running Charts and Monthly Performance summaries of the pool motor vehicles of the Department had not been furnished. |
| Financial Regulation 1647(a) | Whenever there are instances of changes in the safety of equipment of motor vehicles and additional equipment a note on the takeover of those had not been recorded in the Log Books. |
| (iii) Excise Notification No.818 of 04 March 1994 | An approved written methodology for in payment of rewards from the Reward Fund to Excise Officers, informants and others had not been formulated. |

(b) Non – compliance with Tax Requirements

Instances of action taken without compliance with the Tax requirements observed during the course of audit test check are given below.

- (i) All moneys received under Section 56 of the Excise Ordinance No.8 of 1912 in connection with the compounding of the offences under the Excise Ordinance

and in connection with the cancellation or suspension of licenses, permits or passes should be paid to the Excise Rewards Fund. Instead of crediting the penalties charged on the delays in the payment of compounding fees as an income of the Excise Reward Fund, the Department had brought to account such penalties under Revenue Code 20.03.02.99 – Other Revenue. The amount so credited to other revenue during August to December 2014 alone amounted to Rs. 1,615,247 and the amount credited to Other Revenue from January to August 2014 could not be clearly ascertained in audit.

- (ii) In terms of Section 10 of Chapter 11 of the Value Added Tax, No. 14 of 2002 and the subsequent amendments thereto, when the value of supplies and service income received for the supplies and services of an institution exceeds Rs. 3 million per quarter or Rs. 12 million per year, such institution should compulsorily register for the Value Added Tax. Nevertheless, the Department had not registered for the Value Added Tax.

3.8 Deficiencies in the Operation of Bank Accounts

Action had not been taken to identify the money credited direct to the Bank and account for them under the respective Revenue Codes and as such unidentified deposit balance totalling Rs. 40,548,665 existed as at 31 December 2014. Out of that a sum of Rs. 200,000 had not been identified and brought to account even by 30 September 2015.

3.9 Transaction of Contentious Nature

Certain transaction entered into by the Department had been of Contentious Nature. Particulars of several such transactions revealed during the course of test checking are given below.

- (a) A sum of Rs. 147,701,421 received from a company as the arrears of Excise Duty as at 09 July 2008 had been deposited in a three month deposit in the Bank of Ceylon until the delivery of the judgment on a case being heard in the Court. Even through the interest received on the deposit should be credited to the above Account, the Department had taken action to credit the interest quarterly to the Bank Account of the Company. The following observations are made in this connection.
 - (i) Even though the case had been pending over a period exceeding 04 years, it had not been finalized even by 31 December 2014 and a sum of Rs. 50 million approximately as interest on the money deposited in the bank had been received by the company up to date. As the transaction of the case is delayed and even if the case is finally decided against the company, the company had been allowed to earn a large amount as the interest had been credited to the company.

- (ii) Whether the Government or the company will get the money depends on the judgment of the case and the party in whose favour the judgment will be delivered will have a claim on the interest as well. As the interest had been paid to the company, the Government will lose a large sum of revenue from interest is the judgment of the case is in favour to the Government.
- (b) The survey plan in terms of the Section 13(2) of the Excise Notification No. 902 dated 30 April 2008 had been furnished in the year under review for obtaining an Excise license for a restaurant. The issue of the license had been rejected as the distance limits of the survey plan were contrary to the distance limits specified the Excise Notification. Nevertheless a license had been issued based on another revised survey plan of even date conforming to the distance limits drawn by the same Surveyor who drew the former plan. The following observations are made in this connection.
- (i) Even though two survey plans bearing the same date, but giving different distances drawn by the same Surveyor had been produced, the Department had issued the license.
 - (ii) Even through action had been taken to issue the license without obtaining the survey plan from the Department of Survey, due to the public objections raised from the inception of the issue of license, the license had been suspended on 25 February 2015.

3.10 Irregular Transactions

Certain transactions entered into by Department had been devoid of regularity. Such an instance observed is given below.

The fourth floor of the building located at Elvitigala Mawatha, Colombo 8, taken on rent at a monthly rent of Rs. 775,000, by the Excise City Office, Colombo had been given by the Department as the official quarters of a staff officer. Even though only Government quarters can be allocated to Government officers for occupation on the recovery of 12.5 per cent of the monthly salary a floor from a building taken on rent had been given as official quarters.

3.11 Losses and Damage

The loss causes in the year under review due to an accident to a motor vehicle amounted to Rs. 1,091,810, a sum of Rs. 763,304 only had been received as insurance indemnity. Action had not been taken for the recovery of the balance loss of Rs. 328,506 from the officers responsible.

3.12 Management Weaknesses

The following weaknesses were observed during the course of audit test checks.

- (a) According to the National Budget Circular No.128 of 24 March 2006, the particulars of all assets due for purchase during the year should be included in the Annual Procurement Plan. Nevertheless, the sum of Rs. 14,123,123 spent from the Excise Reward Fund for the purchase of furniture and office equipment had not been indicated in the Annual Procurement Plan of the Department.
- (b) Arrears of Excise Duty revenue amounting to Rs. 311,828,527, Rs.628,615,916 and Rs.128, 180,147 remained recoverable as at 31 December 2014 from three companies. The following observations are made in connection with the recovery of those arrears of revenue.
 - (i) Even though the companies had entered into agreements with the Department for the payment of arrears of revenue in installments, it had not been paid as specified in the agreement.
 - (ii) Even though clause 04 of the agreement specified that the arrears should be paid by Bank draft or Legal Tender of Sri Lanka, payments and been made by cheques and two such cheques had been dishonored.
 - (iii) Even though there were delays in the payment of installments, action in terms of the agreement had not been taken.
 - (iv) The date of depositing cheques had been noted as date of payment of installment.

3.13 Human Resources Management

Approved Cadre and actual Cadre

The position of the cadre as at 31 December 2014 had been as follows.

| | Category of Employees | Approved Cadre | Actual Cadre | Number of Vacancies |
|-------|-----------------------|-------------------|-----------------|------------------------|
| (i) | Senior Level | 57 | 37 | 20 |
| (ii) | Tertiary Level | 380 | 311 | 69 |
| (iii) | Secondary level | 860 | 586 | 274 |
| (iv) | Primary level | 169 | 122 | 47 |
| | Total | 1,466 | 1,056 | 410 |

The Department had not taken action even by the end of the year under review to fill 410 vacancies