

## **Excise Rewards Fund - 2015**

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The audit of financial statements of the Excise Rewards Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 of 04 March 1994 published under Section 58A of the Excise Ordinance No. 8 of 1912. My comments and observations on the above 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 Auditing 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 judgement, 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 of the Department of Excise as at 31 December 2015 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 following observations are made.

- (a) The financial statements of the year under review had been prepared on cash basis contrary to the Sri Lanka Public Sector Accounting Standard 01.
- (b) Depreciation had not been calculated and relevant adjustments had not been made in respect of buildings costing Rs.47,134,000 in terms of Sri Lanka Public Sector Accounting Standard 07.

#### **2.2.2 Accounting Deficiencies**

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Security deposits amounting to Rs.185,000 retained until the settlement of technical crimes had been brought to account as an income instead of showing as a liability.

#### **2.2.3 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 and Management Decisions</b>	<b>Non-compliance</b>
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(a) Section 17 of the Tobacco Tax Act, No. 8 of 1999	A Tobacco Reward Fund under the control of the Commissioner General of Excise should be established and one fourth out of the fines collected under the Tobacco Tax Act should be transferred to the Tobacco Reward Fund. Nevertheless, the receipts of tobacco fines had been brought to account as payables to the Tobacco Rewards Fund under the Excise Reward Fund without establishing a Tobacco Fund.
(b) Treasury Circular No.842 dated 19 December 1978	A Register of Fixed Assets had not been maintained for the assets of the Fund.

- (c) Excise Notification No.818 of 04 March 1994  
Special Conditions (v), (vi)
- The reward payable half yearly to an officer involved directly in raids should not exceed the six month salary of that officer. Nevertheless, rewards totalling Rs.30,763,997 relating to the years 2012,2013 and 2014 had been paid in the year under review.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Fund during the year under review had resulted in a surplus of Rs.79,009,718 as compared with the corresponding surplus of Rs.63,375,039 for the preceding year, thus indicating an improvement of Rs.15,634,679 in the financial results for the year under review as compared with the preceding year. The increase of receipts of settlement charges by Rs.15,406,633 had mainly attributed to the improvement of the surplus.

### **4. Operating Review**

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#### **4.1 Performance**

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Objectives of the Fund were shown as follows.

- Payment of cash awards to Excise Officers, informants and others
- Providing money to training and academic purposes
- Providing money for sports, recreation and welfare activities of the staff of the Department of Excise subject to a limit of Rs.50,000 per year .
- Purchase of materials, equipments and other items required for the Department of Excise
- Payment of cash awards for commendations, acts of bravery or acts of special recognition
- Settlement of expenditure to be incurred by the Department in dispatching officers for special duties or special raids

The matters revealed in the achievement of these objectives are given below.

- (a) An income of Rs.178,507,964 had been earned from 4,932 raids on excise technical crimes in the year under review and an income of Rs.163,101,331 had been earned from 5,319 technical crimes in the preceding year. Accordingly, an increase in the income earned from the raids on excise technical crimes by Rs.15,406,633 or 9 per cent was observed despite a decrease in the number of raids by 387 or 7 per cent during the year under review as compared with the preceding year.
- (b) Even though a sum of Rs.108,750,000 had been allocated by the Annual Budget for the payment of cash rewards, a sum of Rs.65,523,136 only had been paid during the year

under review. Thus, a sum of Rs.43,226,864 or 40 per cent had been saved. Even though the main objective of the Rewards Fund was to encourage the officers, it was not explained to audit that whether the objective was achieved by the Fund.

- (c) Even though sums amounting to Rs.800,000 and Rs.4,000,000 had been allocated for special duties or special raids and training and academic purposes respectively, sums totalling Rs.18,690 and Rs.926,947 had been spent respectively in that connection. Accordingly, out of the amount allocated for special duties or special raids, a sum of Rs.781,310 or 98 per cent had been saved while Rs.3,073,053 or 77 per cent out of the amount allocated for training and academic purposes had also been saved.
- (d) A sum of Rs. 314,898 had been paid from the Fund to provide food for the participants in the Drug Prevention Programmes and for other relevant expenditure which were not included in the training and academic purposes of the Fund.
- (e) Even though a sum of Rs.200,000 for acts of bravery or acts of special recognition had been allocated in terms of Section 4.5 of the Excise Notification No.818 dated 04 March 1994, payments had not been made from the Fund in respect of such acts in the year under review and from the date of issue of Excise Notification.

#### **4.2 Uneconomical Transactions**

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In making payments to the trainees at a two day training programme organized for trade union leaders, payments had been made to the persons not participated in the work shop. Thus, an uneconomical expenditure amounting to Rs.67,037 was observed.

#### **4.3 Idle and Underutilized Assets**

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A stock of library books purchased at a cost of Rs.97,113 from the Fund had been underutilized for approximately 03 years.

### **5. Accountability and Good Governance**

#### **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 of 17 February 2014 had not been prepared.

#### **5.2 Unresolved Audit Paragraphs**

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Even though an approved written methodology should be formulated 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 formulated even as at 30 April 2016.

**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                      Application of accrual basis in the accounting of income and expenditure
  
- (b) Assets Control                      Identification and accounting of assets of the Fund and the Department separately and making provision for depreciation of assets correctly.