

Report of the Auditor General on Head 248 – Department of Excise – Year 2015

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 Head 248 - for the year ended 31 December 2015 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 07 July 2016. 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 Officer 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

(a) Total Provision and Expenditure

The total net provision made for the Department of Excise amounted to Rs1,054.54 million and out of that, a sum of Rs. 812.54 million had been utilized by the end of the year under review. Accordingly, Rs. 242.00 million out of the total net provision of the Department or 22.95 per cent had been saved.

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provision
	Net provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	666.62	665.08	1.54	0.23
Capital	387.92	147.46	240.46	61.99
Total	1,054.54	812.54	242.00	22.95

2.2 Revenue Accounts

Estimated and Actual Revenue

Revenue amounting to Rs. 105,035.00 million had been estimated under 2 Revenue Codes for the year 2015 and Revenue totalling Rs. 105,297.60 million had been collected during the year under review. Accordingly, 100.25 per cent of the estimated Revenue had been collected. Details appear below.

Revenue Code	As at 31 December 2015			Surplus/ (Deficit) as a Percentage of Estimate
	Estimated Revenue	Actual Revenue	Surplus/ (Deficit)	
	Rs.Millions	Rs.Millions	Rs.Millions	
10.02.04.01	105,000.00	165,263.55	263.55	0.25
10.02.06.00	35.00	34.05	(0.95)	(0.2.71)
Total	105,035.00	105,297.60	262.60	0.25

2.3 Advance Account

2.3.1 Advances to Public Officers' Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers' Account under item No. 24801 relevant to the Department and the actual amounts are given below.

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
38.01	23.06	28.00	31.19	170.00	122.72

2.4 Imprest Account

The balance of the Imprest Account No 7002/0000/00/0072/0015/000 of the Department as at 31 December 2015 amounted to Rs. 102.44 million.

2.5 General Deposit Accounts

The total of the balances of six General Deposit Accounts of the Department as at 31 December 2015 amounted to Rs. 395.07 million. Details appear below.

Account Number	Balance as at 31 December 2015
6000/0000/00/0001/0122/000	25.79
6000/0000/00/0002/0178/000	2.71
6000/0000/00/0016/0126/000	3.42
6000/0000/00/0018/0119/000	0.79
6000/0000/00/0008/0051/000	31.80
6000/0000/00/0006/0060/000	330.56
	395.07

2.6 Audit Observation

The Appropriation Account, Revenue Account and the Reconciliation Statement of the Department of Excise for the year ending 31 December 2015, had been prepared satisfactorily subject to the observations appearing in the management audit report referred to in paragraph 1.1 above. The material and significant audit observations out of the audit observations included in the management audit report appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 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 Security Deposits	Financial Regulation. 891 (1)	Not prepared
(iii) Vehicle Log Books	Financial Regulation 1645 (a)	Log Books not maintained
(iv) Register of Losses	Financial Regulation 110	Not updated

3.2 Revenue Accounts

The functions relating to 2 Revenue Codes, the preparation of Revenue Estimates collection, accounting and presenting Revenue Accounts had been vested on the Head of the Department as the Revenue Accounting Officer. 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) It had become possible to collect revenue exceeding the estimated revenue by Rs.262.00 million due to the Ministry of Finance increasing the taxation percentage relevant to the Revenue Code in the months of October and November of the year under review.
- (ii) According to the Revenue Account presented for audit, there was a sum totalling Rs.2,191,178,421 remained as revenue arrears, and this outstanding revenue had been brought forward ranged for a period of 1 year to 4 years.
- (iii) The actual revenue for the year under review had increased more than the actual revenue of the previous year by Rs 36,175 million. Thus the increase of the tax rate by 7% during the year under review had mainly attributed to the increase of revenue.

(b) Revenue Code 10.02.06.00 – Tobacco Tax

The actual revenue of the year under review had decreased more than the actual revenue of the previous year by Rs. One million.

3.3 Advances to Public Officers Account

The following deficiencies were observed during the course of audit test checks done on the Reconciliation Statement as at 31 December 2015 relevant to the Advances to Public Officers Account under Item No. 24801.

- (a) According to the Reconciliation Statement submitted for audit, the total of the outstanding balances due to be recovered as at that date was Rs.2,995,281, and even though these outstanding balances had been existing for a period ranging from 01 year to 06 years, follow up action to recover these outstanding balances had been at a weak level.
- (b) The interest relevant to the distress loans recovered from the officers had not been entered monthly in the members loan ledger (CC 10)

3.4 Good Governance and Accountability

3.4.1 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.

3.4.2 Annual Procurement Plan

A provision of Rs.29.8 million had been made to obtain goods and services after acting in accordance with the Government Procurement Guideline. Even though a Procurement Plan had been prepared in terms of the National Budget Circular No. 128 of 24 March 2006, it had not been prepared to cover all Divisions.

3.4.3 Internal Audit

The following observations are made.

- (a) The Internal Audit Programme had not been prepared in accordance with the Financial Regulation 134(2).
- (b) Even though it was stated that special attention had been paid regarding the evaluation of the internal control systems of the Regional Offices and the Head Office according to the Internal Audit Programme for 2015, substantial evidence were not produced to audit to establish that an internal audit had been done based on Departmental rules, regulations and Excise Notifications
- (c) No follow up action had been taken or rectification of the shortcomings done in respect of the deficiencies pointed out by internal audit reports issued in the year 2015.
- (d) No evidence whatsoever was produced to audit to establish that examination had been done by the Internal Audit Division in respect of the Excise Reward Fund relevant for the year 2015.

3.5 Assets Management

The following deficiencies were observed during the course of audit test checks done on the assets of the Department.

(a) Idle and Underutilized Assets

It was observed during the course of audit test checks that certain assets categorized below had been either idle or underutilized.

Category of Assets	Units	Value	Period lying Idle or Under-utilized
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		Rs.	
(i) Vehicle Tyres	21	241,728	05 Years
(ii) Stock of Library Books	lot	97,113	03 Years
(iii) Motor Vehicles	01	-	05 Years

(b) **Conducting the Annual Board of Survey**

A survey of the vehicles belonging to the Department had not been carried out for the year under review and the respective report furnished to audit.

(c) **Improper use of Assets not Vested**

A sum of Rs.25 million and Rs.24 million had been spent respectively even during the year under review utilizing Treasury provisions for the construction of Excise Stations in Batticaloa and Nuwara Eliya. However, the lands where the constructions are located had not been vested properly. Further, no action had been taken to vest the ownership 11 lands where Excise Stations had been established and of two vehicles being used by the Department.

(d) **Unsettled Liabilities**

Liabilities to the value of Rs.10,143,723 unsettled by the Department as at 31 December 2015 were being brought forward for a period of less than one year.

3.6 **Non compliances**

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 analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Section 17 of the Tobacco Tax Act, No.08 of 1999.	Even though a Tobacco Tax Reward Fund should be established, action had not been taken accordingly.
(b) Excise Notification No.818 of 04 March 1998	An approved proper written procedure had not been prepared to pay reward to Excise Officers, informants and others

3.7 Performance

Observations about the progress of the Department according to the Annual Budget Estimate and Action Plan for 2015 are shown below.

(a) Raids of Technical Offences

During the year under review, an income of Rs.178,507,964 had been earned through 4,932 Technical Offence raids. In the previous year, an income of Rs.163,101,331 had been earned through 5,319 Technical Offence raids. Accordingly, even though there had been an increase of Rs.15,406,633 or nine per cent in the income from Technical Offence raids in the year under review compared with the previous year, the number of raids had dropped by 387 or eight per cent.

(b) Key Functions not Executed Adequately

Key Functions of the Department had not been executed adequately and several instances so observed are shown below.

- (i) The Department had not introduced a proper methodology to ensure that the relevant toddy rent license fees are paid on the due dates by toddy renters.
- (ii) Even though Rs.200,000 had been allocated during the year under review for acts of bravery or acts of special recognition in terms of Section 4.5 of the Excise Notification No.818 of 04 March 1994, the Department had not made payments for such acts from year 1994 to year 2015.
- (iii) Even though a tax has to be imposed and recovered for every cigar, beedi and every kilogram of pipe tobacco manufactured in Sri Lanka in accordance with Section 2 of the Tobacco Tax, at the audit test check done in respect of beedi manufacturing institutions, no such tax had been recovered. Approximately 590 beedi manufacturing institutions are registered in the Department, and from these institutions, only application fees, beedi manufacturing and storage license charges are being recovered from them. In addition, the respective taxes for the tobacco imported are also to be paid by those institutions. Accordingly, the Government had been deprived of the income receivable, and the consumption of tobacco of 26 beedi manufacturers in the year under review had been 320,000 kilograms. Accordingly, the Government had been deprived of an income of Rs.3,200,000 approximately. When taking into consideration regarding the 590 registered institutions, the Government had been thereby deprived of a huge tax income annually.

- (iv) There were instances where most manufacturers had not taken action to renew their registration after the expiry of the period of validity of the beedi manufacturing licenses. In the year under review, there were 10 institutions which had not taken action to renew registration, and the Department had not established that these institutions had not been engaged in manufacturing activities.

3.8 Deficiencies in the Operation of Bank Accounts

Balances for adjustment

Due to action not being taken to identify the money credited direct to the Bank and account them under the respective Revenue Codes, a sum totalling Rs.53,236,762 was shown in the Bank Reconciliation as unidentified deposit balances as at 31 December 2015. Out of this amount, the Department had failed to identify and account a sum of Rs.2,633,125 even by 31 July 2016.

3.9 Transactions of Contentious Nature

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

- (a) Even though copies of invoices have to be made available to the relevant Excise Commissioner's office when liquor is being issued from the distilleries, one distillery had not done so. Even though the officers who take part in the inspection of licensed places should carry out the respective inspections with the copies of those invoices in their possession, it was revealed during the course of test audit checks on Excise Stations that it had not been so done. As such, the accuracy of reports in respect of the receipt and issue about the liquor to the licensed place was not established at the audit.
- (b) Departmental Orders had emphasized that monthly analysis reports and half yearly analysis reports should be obtained. This had not been done properly in respect of 03 distilleries which were inspected. Due to this reason, ensuring whether the contents included the strength stipulated for liquor in accordance with the stipulated specifications was problematic.
- (c) Even though technical offence reports had to be cleared before the renewal of excise licenses, the number of technical offences not cleared from year 2007 to year 2014 in the Special Operations Unit, Colombo, was 70. However, the Department had renewed those 70 excise licenses.

3.10 Irregular Transactions

According to Excise Notification No 920, the Department had given special approval for Hotels to use wine, beer and varieties of liquor to be used inside the relevant premises of hotels maintained according to international standards with the prior approval and supervision of the Tourism Promotion Authority. However, officers of other institutions also had given recommendations before prior approval of the Tourism Promotion Authority, contrary to that Excise Notification.

3.11 Unresolved Audit Paragraphs

Follow up action had not been finalized in respect of audit paragraph 2.9(4) included in the report of the Auditor General relevant to the Department for the year 2014.

3.12 Management Weaknesses

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

- (a) A sum of Rs.21,850,907 had been given as tax rebates based on the export of liquor contrary to Excise Notification No 937 dated 21 June 2011. Even though action had been taken by 31 July 2016 to set off Rs.16,867,546 from the respective companies, the balance amount of Rs.4,983,361 had not been recovered even by 31 July 2016.
- (b) The Department had purchased stocks of uniforms and shoes relevant to the year 2015 on 25 September 2015. As the issue of those stocks was not completed by 31 December 2015, the Department had failed to fulfill the requirements of uniforms and shoes of the officers during the year under review.
- (c) According to Excise Notification No 936 dated 31 May 2011, the Department had taken action to give special approval for the sale of wine, beer and liquor manufactured according to accepted standards for hotels approved by the Tourism Promotion Authority. However, no evidence was produced before audit to the effect that any proper supervision had been done in respect of those hotels from year 2011 up to even 31 December 2015.
- (d) The bus belonging to the Department had met with an accident on 10 November 2010, and Rs.590,450 had been spent for its repairs. The Department had decided to recover the loss related to this accident from the relevant insurance company of the other party, according to Financial Regulation 104. However, a loss of Rs.474,330 had been sustained due to the Department agreeing to the conciliation proposal submitted for the relevant insurance company to pay Rs.116,120 as compensation.
- (e) A van belonging to the Department had met with an accident and had been sent to the agents on 26 January 2015 for repairs. That vehicle had been returned to the Department on 22 January 2016 after the repairs were over. Accordingly, even though it had taken period of about one year for the repair, the Department had not made any inquiries whatsoever about the delay.
- (f) According to the contents of Chapter two of the Excise Handbook, the Superintendent of Excise should have checked monthly the accuracy of the documents of the godowns in his area of authority, as well as the balances in the stock books with other balances. However, in the course of test audit checks done in this regard, it was observed that such action had not been taken.

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	41	16
(ii)	Tertiary Level	380	300	80
(iii)	Secondary Level	860	589	271
(iv)	Primary Level	169	120	49
	Total	1,466	1,050	416

The following observations are made.

- (a) An Inspector of Excise, who had not been confirmed in his post had been released for active service in the Naval Volunteer Force for a period of over five years.
- (b) No evidence was produced in audit to establish that officers of the Department who should have furnished security, had furnished security.
- (c) Even though the Department had planned to issue a Gazette Notification, to have a written examination and to hold interviews on 31 December 2014 to recruit Excise Guards, it had not been possible to recruit Excise Guards as planned, due to that interview being delayed up to December 2015.