

## **Excise Rewards Fund - 2016**

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The audit of financial statements of the Excise Rewards Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, the 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 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 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 Rewards Fund of the Department of Excise as at 31 December 2016 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. Furthermore, the balance of the Depreciation Reserve Fund Account is a non-moving short term asset. Nevertheless, it had been shown in the statement of financial position as a current asset.

#### **2.2.2 Presentation and Maintenance of Accounts.**

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A common ledger had not been maintained on the activities relating to the accounting of the Fund.

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

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In terms of Tobacco Tax Act, No. 08 of 1999, a Tobacco Reward Fund should be established under the control of the Commissioner General of Excise, and Out of the fines collected under the Tobacco Tax Act, ¼ should be transferred to the Tobacco Reward Fund. However, the receipts of fines on tobacco had also been shown under the Excise Rewards Fund without establishing a Tobacco Reward Fund. Furthermore, the relevant sum had been shown in the statement of financial position of the Excise Rewards Fund as being payable to the Tobacco Rewards Fund as well.

### **2.4 Lack of Evidence for Audit**

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Reports of the Board of Survey had not been made available in respect of the fixed assets valued at Rs. 75,164,200, and no documentary evidence whatsoever on the lands and buildings valued at Rs. 47,134,000 reported to be owned by the Fund, had been made available to audit as well.

### 3. Financial Review

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#### 3.1 Financial Results

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According to the financial statements presented, the operating result of the Fund for the year under review had been a surplus of Rs. 32,263,375 as compared with the corresponding surplus of Rs. 79,009,718 for the preceding year, thus observing a decrease of Rs. 46,746,343 in the financial result for the year under review as compared with the preceding year. The decrease in the receipt of settlement charges by a sum of Rs. 45,895,124 representing 25 per cent, had mainly attributed to the said decrease in the surplus.

### 4. Operating Review

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#### 4.1 Performance

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The objectives for the establishment of the Fund, had been as follows.

- ❖ Payment of cash award to Excise Officers, informants and others.
- ❖ Providing money for 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, equipment 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 with respect to achieving those objectives are as follows.

- a) The main receipts of the Fund, the settlement charges, and fines on cigarettes, are given below in comparison with the preceding year.

<u>Receipts</u>	<u>2016</u> <u>Rs.</u>	<u>2015</u> <u>Rs.</u>
Settlement Charges	133,500,640	178,507,964
Fines on Cigarettes	3,453,950	4,341,750
<b>Total</b>	<b>136,954,590</b>	<b>182,849,714</b>
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As compared with the year 2015, the income from the technical crimes for the year under review had decreased by a sum of Rs. 45,007,324 representing 25 per cent whilst the income through the fines on cigarettes had also decreased by a sum of Rs. 887,800 or 20 per cent. Although the audit had been informed by the Chief Accounting Officer that the decline in the technical crimes due to the dedication of

the Excise Officers, had caused the decrease in the income through the settlement charges, it was observed that the decrease in the number of excise raids conducted by the officers in the preceding years, had significantly affected the decrease in the income as well.

- b) Although a sum of Rs. 4,500,000 had been allocated in the year under review on the training and academic purposes of the officers, a sum of Rs. 2,331,515 representing 52 per cent had been spent therefrom on the supply of foods alone to the newly recruited officers who had undergone training whilst the balance of Rs. 2,168,485 had not been spent on any training activity. Hence, it was not observed that provisions had been approved by preparing a proper plan for the training and academic purposes of the officers of the Department.
- c) A sum of Rs. 200,000 had been allocated for paying for the objectives of the Fund such as, commendations, acts of bravery or acts of special recognition, whilst a sum of Rs. 50,000 had been allocated for paying for the sports, recreation and welfare activities, and those allocations had been entirely saved. Accordingly, it was not observed that attention had adequately been drawn on the objectives of the Fund.
- d) According to the performance reports furnished on the raids of excise technical crimes, the decrease in the number of raids conducted in the years 2014, 2015, and 2016 had been 1101, 387 and 339 respectively as opposed to the preceding year. Although 48 Excise Officers had been newly recruited in the year under review, an improvement in the number of raids conducted in respect of technical crimes, was not observed.
- e) A number of 355 officers had been attached to the Special Operation Bureau and the Excise Offices established under the Department, and the Narcotics Bureau in the year under review. According to the performance reports for the year under review, information on the targeted and actual number of raids conducted by those offices in respect of technical crimes, are as follows.

<b>Centre</b>	<b>No. of Officers (Excise Officers, Superintendent of Excise)</b>	<b>No. of Targeted Raids as at 31.12.2016</b>	<b>No. of Actual Raids as at 31.12.2016</b>
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Special Operation Bureau - Central	10	-	57
Special Operation Bureau- North Western	14	100	108
Special Operation Bureau- Southern	05	-	17
Special Operation Bureau- North Central	10	-	19
Special Operation Bureau- Colombo	19	-	209
Regional Offices	281	3513	4183
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	339	3613	4593
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According to the table given above, the number of targeted raids assigned to the North Western Province, and the regional offices had been 3613. However, no targets had been assigned to the Special Operation Bureaus established in the Central, Southern, and the North Central Provinces. Furthermore, no such targets had been assigned to the Special Operation Bureau established in the Colombo district, and the reasons due to which, such targets had not been assigned, were not explained to audit.

## **4.2 Management Activities**

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The following observations are made.

- (a.) A formal methodology had not been prepared by the Fund even up to 31 December, 2016 in order to facilitate paying awards to the Excise Offices, as well as informants, and other parties from the Excise Rewards Fund established in accordance with the Excise Notification No. 818, dated 4 March 1994.
  
- (b.) Action had not been taken by the management properly to rectify the following deficiencies.
  - (i) The information relating to the awarding of rewards on the settlement charges, had not been recorded in the Head Office except for the regional offices.
  
  - (ii) Non-maintenance of information in respect of the number of reports on previous technical crimes for which payments should be made in the future.
  
  - (iii) Failure to coordinate between the Crimes Division, and the Finance Division.
  
  - (iv) Failure to take follow up action in respect of the reports on technical crimes.

## **4.3 Idle and Underutilized Assets**

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A stock of library books purchased from the Fund at the value of Rs. 77,690, had remained underutilized for a period of about 04 years without being used.

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

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### **5.1 Action Plan**

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An Action Plan for the year under review had not been prepared for the Excise Rewards Fund in terms of Public Finance Circular, No. 1/2014, dated 17 February, 2014.

## 5.2 Budgetary Control

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As variations ranging from 37 per cent to 100 per cent were observed between the budgeted and actual values in respect of 06 Objects, it was observed in audit that the budget had not been made use of as an effective instrument of management control.

## 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.

<b>Area of Systems and Controls</b>	<b>Observations</b>
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(a.) Accounting	Non-maintenance of ledger registers properly.
(b.) Control of Assets	Non-maintenance of registers properly, and failure to verify.