

Excise Rewards Fund - 2017

The audit of financial statements of the Excise Rewards Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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

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

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

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

2. Financial Statements

2.1 Qualified Opinion

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 2017 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

a) Sri Lanka Public Sector Accounting Standard 1

- i. As per note 2.1 of the financial statements presented in the year under review accounts had been prepared according to Sri Lanka Public Sector Accounting Standard, Contrary to the Sri Lanka Public Sector Accounting Standard 1 reward fund account had been prepared on cash basis.
- ii. The Depreciation Reserve Fund available in the Treasury account amount to Rs.44,185,902 , the balance is a non-moving short term asset, Nevertheless, it had been shown in the statement of financial position as a current asset.

b) Sri Lanka Public Sector Accounting Standard 7

- i. The building worth of Rs.47,134,000 shown in the statement of financial position as land and buildings, that building had not been assessed and brought to account at the audited date of 23 March 2018. Also adjustments for depreciation for buildings had not been made even up to the year under review.
- ii. Depreciation has been made for fixed assets, without considering the useful life of the asset as per section 64 of the standard.

2.2.2 Accounting Deficiencies

The following observations are made.

- a) During the year under review 15 per cent amounted to Rs.19,360,812 should be credited to the Consolidated Fund, but only a sum of Rs.17,117,924 had been credited, thus no provision was made in the accounts for Rs.2,242,888.
- b) The received fund for December 2017, Rs.22,288,232 as Receipt of settlement charges and Rs.1,645,800 as Tobacco fines respectively. The total of Rs.23,934,032 was credited to the department bank account but same omitted from the fund account for the year under review.

2.2.3 Un-explained Differences

As per the financial statements TCR receivable and TCR payments shown as Rs.129,072,077 and Rs.104,720,340 respectively. According to computer reports it was Rs.157,387,736 and Rs.107,865,650. Accordingly, reasons for the variation of Rs.28,315,659 and Rs.3,145,310 were not explained.

2.2.4 Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules and regulations are given below.

Reference to Laws, Rules and Regulations	Non-Compliance
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a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Regulations 454 (1)	An Inventory register had not been maintained in respect of furniture and office equipment costing to Rs.38,810,560 of the fund as per the provision in the financial regulations general form 44.
b) Treasury Circular No. INI/2002/02 dated 28 November 2002	A fixed asset register had not been maintained in respect of computer accessories and software.

2.2.5 Lack of evidence for audit

Reports of the Board of Survey had not been made available in respect of the fixed assets net valued at Rs.25,957,781, and no documentary evidence whatsoever on 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

3.1 Financial results

According to the financial statements presented, the operating results of the Fund for the year under review had been a surplus of Rs.28,646,537 as compared with the corresponding surplus of Rs.32,263,375 for the preceding year, thus observing a decrease of Rs.3,616,838 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.4,428,563 representing 3 per cent, had mainly attributed to the said decrease in the surplus.

4. Operating review

4.1 Performance

The objectives for the establishment of the fund under Excise Notification No. 818 of 4 March, 1994 had been as follows.

- Payment of cash award to Excise Officers, Information Officers 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 annum.
- Purchase of necessary materials, equipment and other items required for the Excise Department.
- 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) Rs.2,500,000 had been allocated for the training and educational activities of the officers without making any plan for the training and academic activities of the officers. However, this amount saved in fully. A 52 per cent of the approved allocation had been saved in the preceding year in respect of this activity.
- b) A sum of Rs.200,000 has been allocated for paying for the objective of the Fund such as, commendations; acts of brave activities or special recognition, whilst a sum of Rs.50,000 had been allocated for purchasing library books and those allocations had been entirely saved. Accordingly, it was not observed that adequate attention was paid to the objectives of the Fund.
- c) According to the performance reports there has been a gradual decrease in the number of Industrial Excise raids which were 1101, 387, 339 and 278 conducted in 2014, 2015, 2016 and 2017 in respectively. In the year 2016, 48 new excise inspectors and 92 excise officers had been recruited, but increasing in the number of industrial raids was not observed.

- d) The fines charging for technical crimes in terms of the Excise Circular No. 03/2011, In the year under review 79 per cent of the number of detections in respect of the normal violations and remaining 21 per cent only for the main violations. Therefore, it was revealed in the audit that the main violations were not paid much attention to the raid.
- e) The objective of this Fund is to provide cash reward for the encouragement of officers involved in technical crime prevention, although during the year under review and the preceding two years, around 25 per cent reward paid to the officers who directly contribute to raids and 39 per cent of reward paid to officers who didn't directly contribute to raids was also observed when studying the cash reward pattern.
- f) 15 per cent of the annual receipts of the fund should be credited to the Consolidated Fund and another 10 per cent retained in the Fund. Out of the remaining 75 per cent, 10 per cent of the allocation of reward to informants was made annually to distribute to information providers, no payments had been made to the information providers for the allocation during the year under review and the preceding three years.
- g) There was a regular improvement in the balance of receipts and payments account during the year under review and the previous three years. The purpose of establishment of the fund was not observed in order to increase the efficiency and productivity of the department's officers.

Year -----	Balance as at 31 December ----- (Rs)
2017	388,502,891
2016	362,998,739
2015	330,559,626
2014	258,943,440

- h) It is necessary to establish a Tobacco reward fund, 25 per cent should be establish as Reward fund out of the fines imposed under Section 17 (a) (i) and (ii) of the Tobacco Tax Act No. 8 of 1999. The Tobacco tax should be transferred to the Tobacco Fund, but such a fund had not been establish until 31 December 2017.

4.2 Management activities

The following observations are made.

- a) An approved Written Procedure for Payment was not available by 31 December, 2017 for received Excise Reward Fund to the Excise Officers, as well as information providers and other parties.

- b) Although 10 per cent of the annual settlement charges of the fund should be retained for the functions of the fund under Excise Notification No. 818 of 4 March 1994, the amount of retained fund used of the fund was below 47 per cent. It was observed during several previous years of data testing.
- c) An amount equal to the depreciated amount of fixed assets will be credited to the depreciation reserve fund at the treasury. Even though a sum of Rs.44,185,902 was in that fund as at 31 December 2017, action had not been taken to utilize that fund for effective activities.

4.3 Idle and Underutilized Assets

A stock of library books purchased from the fund at the value of Rs. 221,524 had remained underutilized period of more than 5 years without being used, while a library is not belong to the fund.

5. Accountability and Good Governance

5.1 Budgetary Control

As variations ranging from 25 per cent to 100 per cent were observed between the budgeted and actual values in respect of 7 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

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.

Area of systems and controls	Observations
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(a) Accounting	Preparation of financial statements and maintenance of books are not in accordance with the Public Sector Accounting Standards.
(b) Control of Assets	Do not properly maintain records and do not conduct board of surveys.
(c) Control of operation	Some activities had not been carried out as per the notice of Excise No 818.