

Excise Rewards Fund - 2018

Qualified Opinion

The audit of the financial statements of the Excise Rewards Fund of the Department of Excise of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements of the Excise Rewards Fund give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Excise Rewards Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Excise Rewards Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Excise Rewards Fund.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under the following headings.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
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a) Sri Lanka Public Sector Accounting Standard 01	<p>(i.) It is informed that those accounts had been prepared in accordance with the Sri Lanka Public Sector Accounting Standards. Furthermore, the Note to the accounts, No. 7 indicates that the transactions shown in the said reports had been entered into on cash basis. As such, those accounts do not indicate notes relating to receivable income and expenses.</p>	<p>In case the accounts are prepared in accordance with the Sri Lanka Public Sector Accounting Standards, the financial statements should be prepared on accrual basis.</p>
<p>(ii.) The balance of Rs.49,683,233 in the Depreciation Reserve Fund Account being maintained at the Treasury for the Fund, is a non-current asset, but it was shown as a current asset in the statement of financial position.</p>	<p>The adjustment will be made accurately at the preparation of final accounts of the year 2019.</p>	<p>To present under correct classification.</p>

b) Sri Lanka Public Sector
Accounting Standard 07

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| <p>(i.) The building valued at Rs. 47,134,000 had been shown as lands and buildings in the statement of financial position, but the land on which the said building had been located, was not brought to accounts after being assessed even up to the date of audit, 30 March 2019. Furthermore, no adjustments had been made for depreciation on the buildings even up to the end of the year under review.</p> | <p>It is informed that action would be taken in the future according to your instructions to compute depreciation on the buildings valued at Rs. 47,134,000</p> | <p>The land where the building is located should be properly assessed thus verifying the ownership and being brought to accounts.</p> |
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1.5.3 Accounting Policies

Audit Observation

It is an accounting policy to prepare accounts on cash basis. However, rewards are not paid based on the arbitration fees actually received; instead, the receipts of arbitration fees (with fines on cigarettes) reported to the Technical Division are taken into account

Comments of the Management

As the arbitration fees are directly deposited in the bank, there can be delays in receiving those reports by the Head Office. Hence, instructions were issued that the relevant reports should be given to all the officers within a period of 07 days from the date of depositing the monies. Action is being taken to avoid recurrence of this issue in the future.

Recommendation

To take action to prepare accounts on accrual basis, and maintain relations between Divisions with respect to inter-divisional reports.

in that connection. As such, according to the information from the Accounts Division, the receipts of arbitration fees, and fines on cigarettes, totalled Rs. 177,875,203 for the year under review whereas the sum considered by the Technical Division to pay the rewards, amounted only to Rs. 133,474,335.

1.5.4 Accounting Deficiencies

Audit Observation

The arbitration fees totalling Rs. 29,523,737, and the income from the fines on cigarettes totalling Rs. 758,800 received by the Fund for December 2018, had been credited to the bank account of the Department. Hence, the income totalling Rs. 30,282,537 had been omitted in the accounts of the Fund.

Management Comment

A delay of one month occurs for the reports of income on arbitration fees and fines on cigarettes to be received by the Head Office and brought to accounts. As such, the income of the ensuing month is always brought to the accounts of the preceding month. The income from the arbitration fees and fines on cigarettes received in December 2018 had been brought to accounts in January , 2019. Action will be taken to prepare accounts on accrual basis in the future after revising the process.

Recommendation

To prepare accounts on accrual basis.

2. Financial Review

2.1 Financial Results

The result of the operations of the year under review amounted to a surplus of Rs. 36,759,028 as compared with the corresponding surplus of Rs. 28,646,537 for the preceding year, thus observing an improvement of Rs. 8,112,491 in the financial result. The said improvement had mainly been attributed by the increase in the receipt of arbitration fees by a sum of Rs. 42,711,176.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>a) A sum equivalent to that of being depreciated on fixed assets annually, is credited to the Depreciation Reserve Fund of the Treasury. The balance of the said Fund amounted to Rs. 49.6 million as at 31 December 2018. However, no action had been taken to make use of the said Fund productively.</p>	<p>Instructions have been issued to utilize the balance of the Depreciation Reserve Fund productively in the future.</p>	<p>To take action to productively make use of the Depreciation Reserve Fund.</p>
<p>b) Due to reasons such as, a period of over 24 years had elapsed as of 2018 since the implementation of the Excise Notification, No. 818, dated 04 March 1994,</p>	<p>A committee has been appointed to take action on the revision of Excise Notification, No. 818, dated 04 March 1994.</p>	<p>To properly inquire and revise the Excise Notification.</p>

anomalies among different grades of the present staff of the Department, irregularities in the payment of rewards, and expansion in the duties of the Department, it was observed in audit that the said Notification be revised whilst a formal and documentary methodology be followed in the payment of rewards.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation

- a) Without obtaining approval on a plan for the training and studies of the officers, a sum of Rs. 2.5 million had been allocated thereon in the year under review. However, that amount had been totalling saved as no training activity whatsoever had been organized. The provision approved on the same activity in the preceding year, had also been saved in full.
- b) Sums of Rs. 1 million and Rs. 50,000 had been allocated to be paid on the activities being the main objectives of the Fund such as, commendable works, acts of bravery, recreational and welfare activities and special raids, and the library books respectively, but those allocations had been saved in full. It was hence

Comments of the Management

A proper plan had been prepared to train the newly recruited officers and the existing officers of the institution. Nevertheless, the courses scheduled could not be conducted due to unavoidable circumstances.

Any special acts relating to bravery and commendable works, had not been reported in the year 2018 thus saving those funds. As no space is allocated for a library in the new building as of now, action will be taken in the future in that connection.

Recommendation

To conduct training programs annually in order to improve the productivity of the officers by preparing estimates in a realistic manner.

To adequately draw attention on the objectives of the Fund, and prepare estimates on a realistic basis.

observed that attention had not been adequately drawn on the objectives of the Fund.

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| c) | According to the performance reports presented in connection with the raids carried out in the years 2014, 2015, 2016, 2017, and 2018 on technical crimes relating to excise, a gradual decrease was observed in the number of raids by 1101,387, 339, 278, and 631 respectively. In the year 2016, forty eight Excise Inspectors had been recruited newly whilst 92 Excise Guards had also been recruited. However, a quantitative increase in the number of technical raids was not observed. | The reason for the decrease in the number of raids on technical crimes, is that the Excise officers constantly supervise business premises of the licensees thus directing them to carry out the business within the legal framework. Hence, a decrease in the number of breaches of the conditions of the excise licenses is observed. | To constantly monitor the licensed locations. |
| d) | A gradual increase in the balance of the receipts and payments account was observed with respect to the year under review and 04 preceding years. Utilization of those funds to improve the efficiency and productivity of the officers of the Department – the key objective of establishing the Fund, was not satisfactory. Furthermore, action had not been taken to discuss with the Treasury on the surplus funds mentioned below for taking necessary measures. | The relevant Divisions have been informed to prepare plans for the utilization of funds in order to improve the efficiency and productivity of the officers of the Department. It is ensured that this will be done in the future as well. | To pay attention more on the objectives of the Fund, and take formal measures on the surplus funds by conducting discussions with the Treasury. |

Year	Balance as at 31 December		
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2018	415,384,906		
2017	388,502,891		
2016	362,998,739		
2015	330,559,626		
2014	258,943,440		
e)	A tobacco reward fund should be established from 25 per cent of the penalties received in terms of Section 17 (a), I & II of the Tobacco Tax Act, No. 8 of 1999, but action had not been taken even up to 31 December 2018 to do so.	Action is being taken to establish a tobacco reward fund.	To establish a tobacco reward fund in terms of the provisions.
f)	According to the reports of the Technical Division, quantitative differences were observed between the number of rewards claimed under each category from the arbitration fees received in the year 2018 and several preceding years, and the amounts recommended to be paid.	The Excise Notification, No. 818 relating to paying allowances from the Reward Fund, is being revised to be suitable for the present. It is informed that such issues would be averted after the revision.	To adhere to Excise Notification, No. 818, and review the relevant methodology properly.
g)	In terms of Paragraph 6 of the Excise Notification, rewards will be awarded to the officers of the Department of Excise and the others directly or indirectly involved in the forfeitures. However, 255 instances were observed in the audit test checks that no such rewards whatsoever had been awarded to some of the officers of the divisional	The Excise Notification, No. 818 relating to paying allowances from the Reward Fund, is being revised to be suitable for the present. It is informed that such issues would be averted after the revision.	To adhere to Excise Notification, No. 818, and review the relevant methodology properly.

offices and the others.

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| h) | <p>Rewards for the officers of the Head Office are calculated based on arbitration fees relating to the reports on all the technical crimes compiled by all the divisional offices island wide. However, when rewards were calculated for the officers of the divisional offices and the others, only the arbitration fees relating to the technical crime reports compiled with the direct involvement of them, were taken into account. According to the audit test check conducted, quantitative discrepancies were observed with the individual receipts of rewards by the officers and others of the divisional offices and the Head Office in regard to each grade during the period from January to 30 June 2018.</p> | <p>The Excise Notification, No. 818 relating to paying allowances from the Reward Fund, is being revised to be suitable for the present. It is informed that such issues would be averted after the revision.</p> | <p>To adhere to Excise Notification, No. 818, and review the relevant methodology properly</p> |
| i) | <p>According to Section 8 (v) of the Excise Notification, No. 818, all the rewards either unpaid or unclaimed within a year after being authorized for payment, should be retained in the Fund. However, it was observed that rewards totalling Rs. 2.5 million had been paid in the year 2018 , based on 410 reports on technical crimes relating to the years 2013, 2014, 2015 and 2016.</p> | <p>The Excise Notification, No. 818 relating to paying allowances from the Reward Fund, is being revised to be suitable for the present. It is informed that such issues would be averted after the revision.</p> | <p>To prepare realistically.</p> |

4. **Accountability and Good Governance**

4.1 **Budgetary Control**

Audit Observation

As it was observed that the sum of Rs. 3.6 million estimated with respect to 05 Objects had been saved in full, it was not observed that the budget had not been made use of as an effective instrument of management control.

Comments of the Management

Action will be taken to avoid variances in the budget as long as possible

Recommendation

The budget should be prepared properly and realistically within the specified timeframe and act in accordance therewith.