

## Head 248 – Excise Department of Sri Lanka

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statement of the Excise Department of Sri Lanka for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) 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. The summary report including my comments and observations on the financial statements of the Excise Department of Sri Lanka was issued to the Accounting Officer on 31 May 2022 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Department in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 27 July 2022. The report of the Auditor General will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Excise Department of Sri Lanka as at 31 December 2021, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### 1.2 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 opinion.

#### 1.3 Responsibilities of the Accounting Officer for the Financial Statements

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The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 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.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Excise Department of Sri Lanka 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Excise Department of Sri Lanka exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal and Regulatory Requirements

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I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non-compliances of Financial Statements with Provisions of Circulars

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The financial statements should have been prepared in accordance with Guideline 06 issued by the Department of State Accounts. However, instances of deviations from that requirement are given below.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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a) The budgeted information had been shown in the statement of financial performance without mentioning the sum of Rs. 35,000,000 being the estimated tobacco tax revenue.	The relevant officers have been instructed to avert similar situations in preparing the financial statements in the future.	Accuracy in the financial statements should be ensured.
b) A sum of Rs. 23,000,000 had been allocated under the Object, 248-1-1-0-1003-5/11 for incentives in the annual budget for the year under review. However, as estimated supplementary provision valued at Rs. 19,800,000 had been adjusted thereto, the estimated provision had been overstated by that amount in the Form A.C.A. 2, Form A.C.A. 2(i), Form A.C.A. 2(ii), and Form A.C.A. 2(iii), whilst provision made	Officers have been instructed to avert such deficiencies in the future.	The annual financial statements should be prepared accurately in terms of Guideline 06 issued by the Department of State Accounts.

through supplementary estimates had been understated.

- c) Total of the salaries and other employee benefits had been understated by Rs. 2,000,000 in the budget for the year 2021 shown in the statement of financial performance. The relevant officers have been instructed to prepare the estimates accurately in the future. - Do.
- d) The initial value of assistance, grants, and transfers had been shown in the statement of financial performance instead of the budgeted and revised value. As such, a sum of Rs. 2,000,000 had been overstated. Instructions were given to correctly show in the future. - Do.

## 1.6.2 Receipt of Revenue

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Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
The sum of Rs. 3,689,638,848, being the value of refunded tax relating to the liquor exported in the year under review, had not been disclosed in the financial statements.	Information relating to the levying of excise duties on liquor exports, had been recorded by the Accounts Division since the year 2022. Instructions have been sought from the Ministry relating to the accounting method on the levy of tax. Further action will be taken accordingly.	Financial statements should be prepared in accordance with the Generally Accepted Accounting Principles and Accounting Standards. Action should be taken as per instructions of the Department of State Accounts and the Department of Treasury Operations.

### 1.6.3 Property, Plant and Equipment

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Audit Observation	Comment of the Accounting Officer	Recommendation
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The balance of Property, Plant and Equipment shown in the statement of financial position amounted to Rs. 1,458,969,403 by the end of the preceding year. However, a sum of Rs. 1,458,163,819 had been shown in the Form A.C.A. -6 as the opening balance of the year under review , thus observing a difference of Rs. 805,584.	Action will be taken to prepare the financial statements for the year 2022 by including the accurate opening balance in the annual accounts.	Financial statements should be prepared by including the accurate opening balance.

### 1.6.4 Non-maintenance of Registers and Books

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Audit Observation	Comment of the Accounting Officer	Recommendation
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a) The Register of Securities had not been updated by including the information on officers who should give securities in terms of Financial Regulation 891(1).	The officers who should give securities in accordance with the Financial Regulations and Securities Ordinance have been identified, and the process of giving securities is in progress. Once that process is complete, action will be taken to update the Register of Securities.	The Register of Securities should be maintained in an updated manner as per the provisions.
b) The Register of Losses had not been updated in terms of Financial Regulation 110.	Action is being taken to update the Register of Losses and Damages.	The Register of Losses should be maintained in an updated manner as per the provisions.
c) The Register of Income Tax on the manufacture of liquor had not been updated in terms of Financial Regulation 445.	The relevant officers have been instructed to maintain the said register in an updated manner.	The register should be maintained up-to-date as per the provisions.

- d) A register had not been maintained to record information about the recovery of tax on the export of liquor in terms of Financial Regulation 445. This register is maintained as per requirements since the year 2022. The register should be maintained as per the Financial Regulation 445.

### 1.6.5 Certifications of the Accounting Officer

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The Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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a) The Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department, and carry out periodic reviews to monitor the effectiveness of such systems, and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.	A letter had been presented to the Auditor General on 07 May 2021 that, in order to strengthen the financial control of the Department of Excise, necessary methodologies have been put in place, and periodic reviews have been made thus maintaining an effective internal control system.	The provisions should be followed.
b) The Chief Accounting Officer and the Accounting Officer should certify that an effective methodology exists to ensure internal audits. However, as per observations mentioned in Paragraph 5.1 of the report, that requirement had not been met.	Not commented.	- Do.

## 2. Financial Review

### 2.1 Management of Revenue

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>a) The excise revenue estimated for the year under review totaled Rs. 160 Billion. The Department reported that a revenue of Rs. 27 Billion had been deprived due to reasons such as, Covid-19 vaccination, downfall of the tourism industry, and closure of manufacturing institutions. Furthermore, the Department had requested on 28 October 2021 to revise the revenue target by Rs. 25 Billion from Rs. 160 Billion to Rs. 135 Billion equivalent to 15.62 per cent. Accordingly, the value of revised revenue estimate amounted to Rs. 140 Billion and a revenue of Rs. 138 Billion had been collected.</p>	<p>The expected revenue targets could not be reached as the liquor manufactories had been closed owing to Covid-19 pandemic. As such, the Ministry of Finance has been requested to revise the revenue estimates.</p>	<p>Maximum efforts should be made to collect the revenue in accordance with the revenue estimates.</p>
<p>b) It was observed in the audit test check conducted on each liquor manufactory relating to achievement of the target set monthly during the year under review that only 04 companies had exceeded the targeted revenue in the range of 03 per cent to 28 per cent. Fourteen companies could not achieve the targets by 10 per cent to 68 per cent, and 09 of those companies could not reach the targets by more than 30 per cent. The management had not brought their attention thereon.</p>	<p>Necessary instructions and directives relating to the achievement of targets have been given to the officers through “Zoom” meetings. Instructions and directives have also been given from time to time in writing. There were difficulties in achieving the targets set for revenue due to practical problems of the manufactories and management decisions.</p>	<p>The management should focus on directing the manufactories to achieve the respective targets by analyzing the data related to the achievement of the targets.</p>

- c) Forty four bottled toddy manufactories remained functional due the year under review. A total revenue of Rs. 87,155,105 comprising Rs. 66,618,289 from 11 coconut toddy manufactories and Rs. 20,536,816 from 22 palmyra toddy manufactories, had been earned. Furthermore, 05 coconut toddy manufactories and 06 palmyra toddy manufactories, remained non-functional during the year under review. Hence the tax revenue receivable from those manufactories was lost.
- Only 05 coconut toddy manufactories and 03 palmyra toddy manufactories had been updated in the year 2021. Instructions have been given to take suitable action by examining on the manufactories remaining non-functional over extensive periods.
- It is necessary to look into the non-functional manufactories thereby making them functional again. As such, recovering the tax revenue.
- d) According to the report on outstanding revenue by the end of the year under review, a total of Rs. 4,550,673,483 remained receivable to the Excise Department as outstanding taxes and late payments comprising Rs. 4,537,361,087 from liquor manufactories, Rs. 857,186 from toddy manufactories, and Rs. 12,455,210 from distilleries. As compared with the outstanding revenue for the year 2020, this represented an increase of 14.63 per cent.
- As for the delay, a fee of 3 per cent is charged. Accordingly, the outstanding tax revenue for the year 2020 included penalties for delay; and, outstanding tax revenue for the year 2021 also included the penalties for delay as well. As such, an increase is indicated for the year 2021 as compared to the year 2020.
- Action should be taken in terms of Financial Regulations for the recovery of outstanding revenue.
- e) The value of tax remained due from 05 institutions over a period of 05 years, totaled Rs. 360,625,439. A revenue of Rs. 2,085,140,188 inclusive of penalties for delay amounting to Rs. 1,724,514,749 up to the end of the year under review, could not be recovered. When the initial matters were being drafted in order to file cases against 03 of those institutions, agreements had been reached to pay the outstanding excise
- Cases are pending at the supreme court against 02 companies for recovering the outstanding duties. The legal division of this Department is considering to file cases against the other 03 companies.
- Do.



duties and penalties for delay. However, the relevant institutions breached such agreements thus defaulting on the settlement of outstanding duty and penalties for delay.

- f) A tax amounting to Rs. 1,248,194,257 remained due by the end of the year under review from a company that had suspended the manufacturing process, and the penalties for delay amounted to Rs. 793,225,429. In order to restore the manufacturing process, the company had entered into an agreement on 23 June 2021 to make an initial payment of Rs. 100,000,000 with the balance to be paid in 24 installments. Action had been taken to pay the initial payment in 02 installments and the first installment had been paid on 30 June 2021. However, the license for manufacturing had again been suspended following a Cabinet Decision.
- The Department had acted in accordance with the said Cabinet Decision. Accordingly, the legal division of the Excise Department is considering to take legal action for the recovery of outstanding taxes, penalties for delay and stamp fees receivable from this company.
- Do.
- g) The Gazette Extraordinary, No. 1625/1 dated 26 October 2009 publishing the Notice, "General Regulations on Tobacco Tax, No. 01 of 2009" had been amended by including directives such as, imposing a tax on each cigar and beedi produced, imposing a tax on the tobacco and raw materials used on beedi / cigars, and introducing a transport license for beedi/cigars as well as tobacco; and, forwarded to the Department of Legal Draftsman on 05 July 2018. It was informed by the Department of Legal Draftsman that the
- Not commented.
- Attention should be brought to make the amendments without delay thus ensuring the allocation of necessary provision.

Tobacco Tax Act, No. 08 Of 1999 should be revised in order to make amendments, and the revision was in progress. Proposals relating to the taxes to be imposed on tobacco based products had been forwarded to the Secretary to the Ministry of Finance through the Letter, No. ED/2019 of the Commissioner General of Excise on 26 August 2019, but no progress has been observed thus far.

## 2.2 Management of Expenses

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<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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a) Although provision amounting to Rs. 33,000,000 had been made on 05 recurrent Objects, only a sum of Rs. 28,919,335 therefrom had been utilized. The saving under those Objects, ranged between 06 per cent and 28 per cent of the net provision made thereunder.	Provision had been saved due to reasons such as, regional offices and the Head Office had been closed regularly owing to the Covid-19 pandemic in the year 2021, drop in the number of employees reporting for duty, failure in proceeding with the purchases as scheduled, and failure in carrying out maintenance works as planned.	Action should be taken in terms of Financial Regulation 127 (4) and (5).
b) Provision amounting to Rs. 45,200,000 had been made on 04 capital Objects, but only a sum of Rs. 37,631,029 had been utilized therefrom. The saving under those Objects, ranged between 07 per cent and 20 per cent of the net provision made thereunder.	Provision had saved under those Objects as maintenance activities of buildings could not be done and machinery could not be purchased due to Covid-19 pandemic.	- Do.
c) Provision amounting to Rs. 200,000,000 had been made under the Object, 248-1-1-0-2104(59) relating to construction of buildings, but	The planned activities could not be executed as travel restrictions had been imposed and the country had been locked down from time to time	- Do.

even up to September of the year under review, those provision had not been utilized on the intended purpose. A sum of Rs. 14,200,000 had been transferred to another Object in terms of Financial Regulation 66 in October 2021, and provision totalling Rs. 152,000,000 had been returned in 02 instances. Accordingly, construction of 08 regional offices could not be done as planned during the year under review.

due to Covid-19 pandemic. The construction of buildings could not be done due to scarcity of raw materials that affected the entire construction industry.

### 2.3 Issue and Settlement of Advances

#### Advances to Public Officers Account "B"

Audit Observation	Comment of the Accounting Officer	Recommendation
a) A loan balance totalling Rs. 587,077 remained due from 05 deceased officers. Of that, a loan balance of Rs. 238,110 receivable from one of those officers remained due over a period of 2-3 years.	A sum of Rs. 208,360, being the loan balance of one of those officers had been recovered from his death gratuity in May 2022. Action is being taken for recovering the balance amount.	Action should be taken in terms of Section 04 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and Budget Circular, No. 118 dated 11 October 2004.
b) A sum totalling Rs. 1,296,611 remained receivable from 10 officers who had resigned or vacated the posts or been dismissed. Of that, a sum of Rs. 488,127 pertaining to 05 officers remained due over a period of 05 years.	Action is being taken to recover the outstanding loan balances.	- Do.

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| c) | A loan balance totalling Rs. 1,066,723 remained due over a period of 3-12 months from 14 retirees.  | A loan balance of Rs. 668,436 pertaining to 07 officers had been recovered by May 2022. Action is being taken for recovery of the balance. | - Do. |
| d) | The loan balance receivable from 17 officers who had been dismissed, totaled Rs. 2,077,880. Of that, a sum of Rs. 140,202 pertaining to 02 officers remained due over a period of 05 years. | Action is being taken for the recovery.  | - Do. |

## 2.4 Deposit Balances

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<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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a) Action had not been taken in the year under review as per Financial Regulation 571 on 10 deposits valued at Rs. 854,211 relating to 03 deposit accounts that remained lapsed for over 02 years	Action will be taken to credit to the Government revenue.	The Financial Regulations should be followed.
b) According to Financial Regulation 571 (3), money held in suspense in a deposit account, pending receipt of particulars, should not be left in deposit to be treated as lapsed deposits, but should be credited to the proper account or to revenue, as the case may be, or refunded as soon as possible. Nevertheless, there existed 10 deposits valued at Rs. 80,000 under the deposit account number 6000-0-0-18-0-119 for which action had not been taken in that manner.	- Do.	- Do.

## 2.5 Operating Bank Accounts

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 The following deficiencies were observed in the audit test check conducted on operating bank accounts.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
a) As for the liquor manufactories, distilleries, and other licensed institutions paying taxes through banks, action was being taken to introduce a methodology to identify the party making the transaction, but that process had not been concluded. As such, it was observed that unidentified receipts existed continuously in the bank reconciliation statement.	With cooperation of the Bank of Ceylon, action is being taken to introduce a bank deposit slip to facilitate the revenue collection via banks.	A methodology should be introduced to identify the customer at the time of paying the tax.
b) Thirty unidentified receipts totaling Rs. 2,552,867 had continued to exist for over 03 months under the bank account number, 7041628 by the end of the year under review. Of them, 17 receipts totalling Rs. 1,346,985 were shown in the bank reconciliation statement presented as at 30 June 2022.	Seven receipts have been identified thus far, and action is being taken to identify the other receipts as well.	Receipts should be identified and brought to accounts without delay.
c) Of the 12 unidentified receipts valued at Rs. 158,066 continued to exist under the bank account number 7041629 by the end of the year under review, 09 receipts valued at Rs. 64,211 had been shown in the bank reconciliation statement presented as at 30 June 2022.	Three receipts have been identified so far. Action is being taken to identify the other receipts without delay.	- Do.

## 2.6 Non-compliance with Laws, Rules, and Regulations

Instances of non-compliances observed in audit test checks are given below.

Reference to Laws, Rules and Regulations	Observation ----- Non-compliances	Comment of the Accounting Officer	Recommendation
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a) Financial Regulation 104(4) of the Democratic Socialist Republic of Sri Lanka.	In case of a delay of more than 07 days in presenting a detailed report on losses and damages, a preliminary report should be presented in terms of Financial Regulation 104(07) whereas a comprehensive report should be presented within a period of 03 months from the date of loss and damage in terms of Financial Regulation 104(04). Nevertheless, 02 instances were observed in which it had not been done so with respect to losses valued at Rs. 850,318.	Police report on the motor car No. CAR – 0183 has not yet been received. A board of inquiry will be appointed anew with respect to the accident of the vehicle number CAE – 0599 thus expediting the inquiry.	The Financial Regulations should be followed.
b) Public Finance Circular, No. 01/2014 dated 17 February 2014.	Action Plan for the recovery of revenue in the year under review had not been prepared by including the monthly targets on revenue sources such as distilleries, bottled toddy manufactories, import of drinking and non-potable spirits, and import of foreign liquor; measures to be taken to achieve those targets, and indicators to measure the performance of those measures.	Action Plan for the ensuing year will be prepared by including the monthly targets and indicators to be used to measure the achievement of those targets.	Action Plans should be prepared for recovering the revenue in accordance with Public Finance Circular.

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| <p>c) Section 09 of the Public Finance Circular, No. 01/2020 dated 28 August 2020, and Financial Regulations 31 and 880, and Cap. 612 of the Public Officers' Security Ordinance.</p> | <p>Despite being stated that every Department, being the Accounting Officer, should give securities in respect of custody and security of public funds, the Excise Department had obtained securities only from two officers.</p> | <p>The officers who should give securities have been identified, and the process of obtaining securities is in progress.</p> | <p>Action should be taken in terms of Securities Ordinance, Financial Regulations, and Public Finance Circulars.</p> |
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## 2.7 Transactions without Authority

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<b>Audit Observation</b> -----	<b>Comment of the Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>Ten and 17 instances were observed in which non-potable spirit had been imported by 08 institutions without being permitted by the Excise Department and stocks of spirit had been shipped prior to obtaining approval respectively. However, the Excise Department had taken action to issue the permits once the fine had been imposed relating to reports of technical crimes on all those imports. Nevertheless, as per Section 3(i) of the Excise Notification No. 07/2018 dated 21 February 2018 relating to the excise duty on the import of non-potable spirit, any person shall not import, export, manufacture, keep in possession, store, sell, transport, submit or exhibit for sale any non-potable spirit specified under the Schedule I, except under the authoritative power of a License issued in that behalf to a person by the Commissioner General of Excise. Furthermore, action should have been</p>	<p>Technical crime reports have been presented relating to the imports of non-potable spirit by breaching the conditions of the permit, thereby taking action to release the containers by charging arbitration fees.</p>	<p>In case of conditions mentioned in Section 3 (i) of the said Excise Notification being breached, action should be taken in terms of Sections 56 or 48 of the Excise Ordinance.</p>

taken in terms of Sections 56 or 48 of the Excise Ordinance in case of those conditions being breached, but the Excise Department had not acted in that manner.

### 3. Operating Review

#### 3.1 Failure to Discharge Functions

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
<p>a) Computer software. Budgetary provision amounting to Rs. 10 million had been made to install software at the Department. However, a sum of Rs. 536,800 had been returned therefrom whilst a sum of Rs. 9,060,000 had been transferred to other Objects in terms of Financial Regulation 66 as the project had not been implemented. As such, the expected benefits had been deprived.</p>	<p>Not commented.</p>	<p>Directives given by the Public Accounts Committee relating to the installation of software should be followed, thus taking action to reap the benefits expected.</p>
<p>b) Installation of the new version of RASED, an Information System, had been commenced in December 2020 with the objectives of efficient revenue administration, providing customers with an excellent service, formalizing the exchange of data between Government institutions, and implementation of a supply chain to ensure proper human resource management. It was found in the inspection carried out in that connection that specifications had been</p>	<p>The affairs had been delayed due to reasons such as, expert information service of the Ministry of Finance had not been received continuously, preparation of the detailed specification had to be done amidst the present crisis, and postponement of obtaining approval on the financial proposals.</p>	<p>The directives given by the Public Accounts Committee relating to the installation of interlinked database system and the software should be followed, thus acquiring the intended benefits.</p>



drafted under 06 modules whereas preparation of detailed specifications under 11 other modules had been delayed. Furthermore, the reasons such as, expert service of the Ministry had not been received continuously, and delay in obtaining approval on the proposals relating to the proposed consultancy service, had also attributed to the poor performance.

- c) It was observed in the inspection carried out on the installation of interlinked information system that the exchange of data with the Department of Inland Revenue had become functional in October 2021. However, a copy of the agreement had not been made available to the Audit whilst the agreement of not disclosing information relating to the exchange of data with the Department of Customs had become effective in July 2021, and a copy thereof had not been made available to the Audit as well. Furthermore, it was not verified documentarily that exchange of data was taking place between the interlinked systems.
- d) It was observed that information on the recovery of excise duty as per the Excise Notification, No. 10/2019 published in the Gazette Extraordinary, No. 2155/19 dated 27 December 2019 relating to the export of un-denatured, potable and
- Exchanging data with the Department of Inland Revenue has been taken into consideration. Action is being taken to enter into an agreement in that connection. Exchange of data between the Department of Customs and the Excise Department is successfully taking place.
- Do.
- A request has been made seeking instructions from the Ministry. It is kindly informed that those instructions will be followed in due course.
- The financial statements should be prepared in terms of generally accepted principles and the accounting standards. Action should be taken in accordance with the Department of State Accounts and the

bottled liquor meant for sales, had not been recorded and maintained up-to-date at the Accounts Division. An excise duty of Rs. 3,689,638,848 had been levied on 11,173,738 liters of liquor exported by 05 liquor manufacturers in 26 instances during the year under review.

Department of Treasury  
Operations.

### 3.2 Delays in Implementing Projects

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The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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<p><b>Foolproof Sticker Management System.</b> As per the Cabinet approval on 17 October 2017, the contract for the supply of stickers and services had been awarded to an Indian company on the basis of build own and operate of the sticker management system thus entering into a bilateral agreement with the Company on 21 September 2018 in view of minimizing the use of liquor for which taxes or duties had not been paid, further securing the excise revenue, and prevention of illicit liquor. It had been decided to continue the project for a period of 05 years under that agreement and purchase a minimum of 32 million stickers from the consultancy firm. The Excise Ordinance had been amended to be effective from 03 September 2019 to ensure legality thereon under Cabinet approval. Affixing stickers on imported liquor had become effective from 20 July 2019. Affixing stickers on locally manufactured liquor should have been commenced from 20 August 2019, but that process had delayed up to the year under review due to following reasons.</p> <p>a) The practical problem faced by several liquor manufacturers in finding sticker affixing machines capable of affixing stickers at the same speed and capacity of their bottling machines.</p>	<p>Applying safety marks on locally manufactured liquor had been commenced on 03 January 2022. Six local liquor manufacturers use digital marks whilst 59 manufacturers use stickers. Based on specific reasons, only one manufacturer uses both digital marks and stickers.</p>	<p>Prompt action should be taken to achieve the objectives of the project.</p>

- b) Having to appoint a Technical Evaluation Committee to look into the feasibility of implementing the digital technology by identifying the legal and technical drawbacks relating to the introduction of stickers and digital technology.
- c) Test runs had been carried out in using digital technology at several manufactories.
- d) Amending the rules at the request of licensed manufacturer enabling to use one of the methods : digital printing , or affixing paper-based stickers.
- e) Delay in inspecting the liquor manufactories with engineers of the consultancy firm and apprising the liquor manufacturers on preparing reports relating to the necessary infrastructure for the manufactories.
- f) Failure of the consultancy firm in supplying machines to affix digital signs up to the end of the year under review.
- g) The development of software and activities planned on the devices and other affairs relating to the project had been delayed by the foreign consultancy firm up to the end of the year under review.

As such, achievement of expected objectives of the project had further delayed.

### 3.3 Procurements

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<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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Due to delay in the procurement of 220 hydrometers at 20 items each for one category under 11 ranges in the Procurement Plan, the purchase had not been made even up to the end of the year under review.	Bids had been invited for the procurement of 220 hydrometers at 20 items each for one category under 11 ranges after obtaining approval in in February 2020. Samples were requested from the bidders who had responded. However, those bidders informed that it was not possible to provide samples due to reasons such as, the equipment was not in the	Procurement activities should be done in accordance with a proper plan.

possession of bidders, and importing the equipment was also not a possibility due to Covid-19 outbreak in the year 2020. As such, those equipment could not be purchased in the year 2020.

There existed a scarcity of hydrometers at the market. It was proposed in the year 2021 that such equipment should be purchased in accordance with requirements of the present day; hence, the specifications should be reviewed. The specifications had been provided after being prepared by a committee comprising an officer of the Government Analyst's Department. Due to lack of provision in the year 2021, it is kindly informed that action will be taken to seek approval of the Ministry of Finance to proceed with the purchase using funds of the Excise Reward Fund in this year.

### 3.4 Assets Management

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<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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Deeds of 17 plots of land where the excise offices had been maintained were not obtained, and taking over the Government lands was not completed in the year under review.	Twenty seven of the 42 lands owned by the Department have already been taken over. Action is being taken for the acquisition of 15 more lands.	Action should be taken to obtain clear deeds.

### 3.5 Uneconomic Transactions

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Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
<p>There were delays in the construction of offices in Mulativu and Point Pedro. Construction sites in Hatton and Jaffna had been abandoned due to lack of security and non-suitability. As the provision for the year under review could not be utilized, a sum of Rs. 2,802,000 had been paid during the year for maintaining those offices on lease.</p>	<p>Construction of the new building has been temporarily suspended due to lack of security for the land proposed for construction of the excise office in Jaffna.</p> <p>Processing the land was costly due to excessive presence of rocks at the land in Hatton. As such, it was recommended that making constructions was not suitable and an alternative land should be found.</p> <p>The building in Mulativu was declared open on 09 April 2022.</p> <p>There were continuous delays in the construction of office complex in Point Pedro.</p>	<p>Constructions should be completed without delays as planned. Provision made for the year should be utilized.</p>

### 3.6 Management Inefficiencies

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The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
<p>a) As for the 19 recommendations in the report including the matters observed in the performance audit carried out to evaluate the efficiency of the Excise Department in regulating the 06 companies least contributing to the Government revenue out of the 23 licensed liquor manufacturers, the progress of the measures</p>	<p>Not commented.</p>	<p>Attention should be brought on the implementation of recommendations. Progress of the measures taken should be informed to the Auditor General .</p>

taken by the Department to implement those recommendations remained inadequate.

b) Number of raids on crimes.

Particulars on the raids conducted by the Excise Department during the year 2021 and the 04 preceding years in respect of the duties and functions of the Department, are as follows.

Reference to the Act -----	No. of Raids Conducted -----				
	2021 -----	2020 -----	2019 -----	2018 -----	2017 -----
Excise Ordinance	31952	31916	34111	36884	35488
Poisons, Opium, and Dangerous Drugs Ordinance	4278	4988	8243	6047	6103
Tobacco Tax Act	2576	2253	3602	3479	2485
National Authority on Tobacco and Alcohol Act } }	302	466	1435	2902	4406
Total No. of Raids	39108	39623	47391	49312	48482

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(i) According to the information given above, the total number of raids had increased by 830 or 02 per cent in the year 2018 as compared to the year 2017. As compared to the year 2019, it was observed that the total number of raids had gradually decreased in the years 2020 and 2021.	An almost equal number of raids had been conducted from the year 2017 to 2019, and more raids had been conducted in the year 2018 than the year 2017. Furthermore, the reason for the less number of raids in the years 2020 and 2021 was the outbreak of Covid-19 pandemic which was beyond scope of the excise officers. As such, it is not	In order to discharge the functions as per the Acts, the vision, mission and objectives should be achieved as mentioned in the annual Action Plan.

- agreed with the observations.
- (ii) 81.7 per cent of the total number of raids conducted in the year 2021 represented the Excise Ordinance whereas 18.3 per cent were conducted under the Poisons, Opium, and Dangerous Drugs Ordinance, Tobacco Tax Act and National Authority on Tobacco and Alcohol Act. Such raids represented 11 per cent, 6.6 per cent and 0.7 per cent respectively.
- The statistics mentioned in the observations are agreeable. Categorizing crimes under the relevant Acts would be statistically useful, but the officers response in conducting raids is based on the information received, and the nature of such information is beyond scope of the officers. Hence, the classification of raids conducted under such information would be useful in making forecasts.
- A regulatory methodology should be established and implemented on the areas with poor performance.
- c) Raids conducted on technical crimes.
- Reports of unresolved technical crimes.
- According to the information made available to the Audit by the Legal Division of Excise Department relating to the raids on technical crimes conducted in the year under review and the 04 preceding years, setting targets for raids had gradually decreased annually during 2017-2020. Furthermore, the number of raids conducted had increased in relation to the targeted number of raids, but the number of raids conducted during 2017-2020 had gradually decreased. Although the actual number of raids conducted in the year 2021 was 4098, it was observed that the number of targeted raids planned initially had reduced by 857 from 3428 to 2571 indicating 25 per cent.
- A technical crime report is considered as being resolved once arbitration fees have been imposed thereon by concluding the case. In most cases, the licensees settle the arbitration fees by the end of the year, and a penalty for delay equivalent to 10 per cent would be charged thereby renewing the license for the ensuing year.
- In order to minimize the adverse effects arising through the breach of conditions under 09 main categories as per the Excise Circular, No. 03/2011 dated 11 August 2011, it is necessary to conduct inspections continuously and formally on the licensed locations.

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| d) | According to the Excise Circular, No. 04/2021 dated 19 February 2021 relating to the imported liquor being sold at the local market, samples should be collected half-yearly from locations permitted under Excise license of the category FL-03, and sent to the Government Analyst thereby obtaining reports to verify standard and quality. However, samples had been so collected only from 06 locations in 53 instances during the year under review. | Not commented.   | Responsibility of the Department for ensuring the compliance with standard and specifications of the imported foreign liquor, should be executed. |
| e) | A sum of Rs. 387,990 had not been recovered for the first half of the year under review on the waste that had exceeded the limit on spirit that had been double distilled at a distillery in the excise division of Marawila. Furthermore, it was not verified in audit that a methodology was in place to levy excise duties on the excess waste generated during the spirit manufacturing process of distilleries and manufactories.                     | It will be checked as to whether the duties on waste have not been levied so far and action will be taken to recover the tax.  | Attention should be brought to implement a methodology to levy the excise duty on excess waste produced in manufacturing liquor and spirit.       |
| f) | A tax revenue of Rs. 7,001,935,186 had been expected from 04 non-functional manufactories for the year under review, but that revenue had not been received.   | Action has been taken after review to set the said revenue targets to other manufactories.   | Estimates should be prepared to recover tax only from the institutions eligible under legal provisions.   |
| g) | Twenty six manufactories remain functional under license of the Excise Department. It was observed in examining the data such as, alcohol-related products manufactured in the year 2021 by those companies, contribution of such products to the revenue, and market share of each company that 21 strong liquor manufactories and 02 wheat liquor manufactories out of 23  | Each manufacturing company had acquired its market share on the matters beyond scope of the Excise Department. Every measure has been taken to protect the Government revenue. | Action should be taken to protect the Government revenue through the analyses of data and information relating to the revenue.                    |



companies, had made contributions of 70.81 per cent and 29.19 per cent to the revenue respectively. Of the 21 strong liquor manufactories that remained functional, only 04 companies provided a contribution of 64.6 per cent of the total revenue whereas the contribution of 03 companies remained less than 3.9 per cent. The contribution made by other 12 companies remained 1.8 per cent.

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| <p>h) The Excise Department had issued 774 registration certificates relating to beedi/cigarettes/cigars. However, only 509 companies had renewed their registration for the ensuing year as at 2022.03.31. Accordingly, it was observed that 265 companies remained non-functional, and the Excise Department had lost registration fees, outstanding registration fees, application fees and stamp fees from such companies.</p> | <p>- Do.</p> | <p>Follow-up action should be taken on the non-functional companies accordingly.</p> |
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**4. Sustainable Development Goals**

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 The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>-----</p> <p>Of the 37 targets relating to 15 goals of the Excise Department in respect of the “2030 Agenda” on sustainable development of the United Nations, 07 targets had been identified under 05 goals for the year under review. Directives had been issued at the meetings of the Public Accounts Committee relating to the</p>	<p>-----</p> <p>The Excise Department had mentioned 15 of the 17 goals in the Action Plan of the year 2019 relating to “2030 Agenda” on sustainable development of the United Nations. However, due to difficulties in achieving such a large number of goals, action had been taken to reduce the</p>	<p>-----</p> <p>It is necessary to implement the directives given at the meetings of the Public Accounts Committee on the achievement of sustainable development goals identified with respect to environmental and</p>

achievement of sustainable development goals identified with respect to environmental and social protection. The audit had not been made available with information on the progress of activities mentioned in the Action Plan such as, introducing standards for liquor, establishment of a laboratory, introducing methodologies to ensure environmentally-friendly liquor manufacturing processes to prevent generation of waste, recycling of waste before being released to the environment, and minimizing waste through reuse.

number of goals to 05 in the Action Plan of the year 2021. Accordingly, priority was given to the following sustainable development goals, and the Action Plan for the year 2022 has been prepared targeting to achieve those goals in the years 2021 and 2022. At present, the entire responsibility of the Excise Department is executed in line with those 05 sustainable development goals.

social protection.

## 05. Good Governance

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### 5.1 Internal Audit

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Audit Observation	Comment of the Accounting Officer	Recommendation
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Ten audit programs had been scheduled under 19 areas in the internal audit plan for the year under review, but 05 audit queries had been issued through 05 audit programs under 10 areas. The audit was not informed on the measures taken by the management in regard to the deficiencies in system control pointed out in those reports.	Not commented	Internal audits should be conducted in accordance with an audit plan prepared based on risks.

## 06. Human Resource Management

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The Excise Department comprises 13 assistant excise offices located islandwide including the Head Office, 30 offices of the superintendent of excise, 56 excise stations, 05 special operations units, and a legal unit. Cadre information is as follows.

<u>Category of Employees</u>	<u>Approved Cadre</u>	<u>Actual Cadre</u>	<u>No. of Vacancies</u>
Senior Level	68	32	36
Tertiary Level	381	295	86
Secondary Level	1048	875	173
Primary Level	<u>142</u>	<u>86</u>	<u>57</u>
Total	<u>1639</u>	<u>1288</u>	<u>352</u>

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
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a) As for the senior level, vacancies existed one each for the posts of Additional Commissioner General of Excise, Chief Financial Officer and Commissioner of Excise, along with 06 posts of Deputy Commissioner of Excise, 04 posts of Assistant Commissioner of Excise, and 20 post of Superintendent of Excise.	Two officers have been appointed in acting capacity to the posts of Additional Commissioner General of Excise, and Chief Financial Officer, and the vacancies exist in those posts. There are no officers qualified enough to fill the vacancy in the post of Commissioner General of Excise. Six posts of Deputy Commissioner of Excise remain vacant, and although there are 02 qualified officers, they have not applied for that post. The 04 posts of Assistant Commissioner of Excise remain vacant. One post has been allocated to a Superintendent of Excise. The number of vacancies in the post of Superintendent of Excise is 21, and it is scheduled to conduct interviews for 11 of those posts whilst 08 applicants have applied for the exam.	Action should be taken to fill the vacancies pivotal for the Department to function.

- b) There existed 36 vacancies in the senior level which directly affect the objectives of the Department and 86 vacancies existed in the tertiary level. Due to lack of officers qualified enough as per the Scheme of Recruitment to be appointed to the 36 vacant posts in the senior level, instructions on the filling of those vacancies were sought from the Public Service Commission through my Letter, No. ED/02/03/02/10 dated 2022.03.10. Accordingly, the recommendation that the officers who had completed the other qualifications sans the required period of service as mentioned in the Scheme of Recruitment, should be promoted once by disregarding the service period, was forwarded to the Public Service Commission. Accordingly, the vacancies in the senior level would be filled. Furthermore, 18 Chief Excise Officers were promoted to the tertiary level, and 37 Excise Officers were recruited on open basis. - Do.
- c) Vacancies in the posts of Legal Officer, Assistant Director-Information Technology, and Administrative Officer had not yet been filled. Interviews had been conducted to recruit to the post of Legal Officer and the documents were forwarded to the Public Service Commission. Director General of Combined Services have been requested through the Secretary to the Ministry of Finance for officers to be appointed to the vacant posts of Assistant Director (Information Technology) and Administrative Officer. - Do.