

Excise Rewards Fund - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Excise Rewards Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity 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 and Section 58 “a” of the Excise Ordinance No. 08 of 1912 as amended by Excise Amended Act, No. 37 of 1990 and Excise Notification No. 818 under Section 32(2) (q) of the Excise Ordinance. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 December 2021, 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 on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 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 intend 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 fund’s financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund 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 fund.

1.4 Auditor's Responsibility 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 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 fund'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 fund 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, 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 Audit Observations on the preparation of 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.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Although changes in depreciation policy should be adjusted to the opening balance of the financial statements under the effect of net assets or equity in accordance with paragraph 27 of the Sri Lanka Public Sector Accounting Standard No. 03, without doing accordingly and the relevant adjustment adjusted to the depreciation expense of the year under review. Due to that, depreciation expense was indicated more than by Rs. 5,223,587.	No comments.	Should be act in accordance with Sri Lanka Public Sector Accounting Standard No. 03.

1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Rs. 3,989,060 which is 75 percent out of the cigarette fines of Rs. 5,318,747 included in the Statement of financial performance should be paid to the government revenue, but it was observed a difference of Rs. 143,325 due to that amount was indicated as Rs. 4,132,385 in the Statement of financial performance.	When calculating the 75 percent to be credited to the government revenue from cigarette fine revenue, the cigarette fine revenue to be received in the year 2021 has also been calculated.	Financial statements should be prepared accurately.
(b) Although the value of land and buildings in the Statement of financial position was stated as Rs. 47,134,000, it was only the value of building. However, the land on which the building is located was not assessed and accounted till the end of the year under review and the necessary documents to prove the ownership of the land were not submitted for the audit.	Since it is a land belonging to the Ministry of Education, action is being taken to take over. The transfer certificate has not been received yet.	Action should be taken to assess and account the land on which the building is located by formally confirming the ownership.
(c) No depreciation adjustments were made for the buildings amounting to Rs. 47,134,000 till the end of the year under review.	Relevant officials have been instructed to calculate the depreciation in the year 2022.	Should be act in accordance with Sri Lanka Public Sector Accounting Standard No. 03.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following non-compliances are made.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraphs 17(a) I and II of the Tobacco Tax Act No. 8 of 1999.	Although arrangements should be made to establish a tobacco rewards fund with a share of 25 percent of cigarette fines, no such fund had been established from the period of beginning	Preparation of relevant amendments has been initiated in consultation with the Legal Draftsman Department	Establishment of a Tobacco Rewards Fund pursuant to the provisions of the Tobacco Tax Act No. 8 of 1999.

date of the fund to the end of the year under review. The annual allocation amounting to Rs. 20,437,066 was indicated as an amount payable to the fund until the end of the year under review in the financial statements. inclusion of new amendments and the scheme related to the fund has also been drafted.

(b) Included by the paragraph 15.1 of the Public Finance Circular No. 01/2020 dated 28 August 2020,

(i)	Financial Regulations 877(2)(a)	No separate bank account was maintained for the rewards fund till the year under review and receivings to the rewards fund amounting to Rs. 119 million and payments of the fund amounting to Rs. 179 million were made through the bank accounts of the Excise Department.	A General Deposit Account No. 6/60 has been opened by the Department of Public Accounts and therefore, receivings and payments of the fund have been made through the bank account 7041628 of the department.	Should be act in accordance with the circular provisions.
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(ii)	Financial Regulations 877(2)(d)	Although the performance report of the fund should have been submitted with the annual financial statements of the Excise Rewards Fund in the year 2021, it had not been done accordingly.	The reports released for the performance of the fund will be submitted from the year 2022.	-Do-
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 71,662,784 and the corresponding surplus in the preceding year amounted to Rs. 7,177,264. Therefore a deterioration amounting to Rs. 78,840,048 of the financial result was observed. The main reason for the deterioration was a decline of settlement fees and cigarette fine revenue amounting to Rs. 35,179,502 or a decrease of 22.5 percent and increase of expenses including payments of deposits and payments to the tobacco fund by Rs. 43,660,546 or an increase of 29 percent.

2.2 Going Concern of the fund

Audit Observation				Management Comment	Recommendation
(a) The details of the impact on the fund's net assets for the year under review and for the last 4 years are given below.				This has been affected by the need to give cash incentives to all wide service staffs who have worked in the Excise Department since the year 2019 and the decrease in settlement fee income since the year 2020.	Efforts should be made to increase the income of the fund and create a surplus from operational activities.
Year	Excess/ Shortage	Net assets	Impact on net assets as a %		
	Rs.	Rs.			
2017	8,646,536	490,807,718	7		
2018	36,759,028	527,566,746	7		
2019	(160,411,245)	367,155,501	(30)		
2020	(42,813,392)	324,342,110	(12)		
2021	(71,662,783)	252,679,326	(22)		
<p>Although there was an increase in the net assets of the fund in the years 2017 and 2018, it was observed a decline of 30 percent, 12 percent and 22 percent respectively in the net assets from the year 2019 to the year 2021.</p>					
(b) The details of the year-end balance of the fund's deposit account in the treasury for the year under review and for the last 4 years are given below.				It is also necessary to consider the reasons beyond the control of the excise officers which existed continuously and from time to time throughout the island wide and proceedings in such a way as to undermine the continuous operation of pubs. For this purpose, with the aim of improving the financial status of the fund, orders have been given to submit industrial	Efforts should be made to protect the financial position by incurring only expenses related to the objectives of the fund.
Year	Net cash Increase/ (Decrease)	Balance of the deposit account	Impact on balance of the deposit account as a %		
	Rs.	Rs.			
2017	25,504,151	388,502,890	7		
2018	26,882,015	415,384,906	6		
2019	(214,749,066)	200,635,839	(51)		
2020	2,129,466	202,765,306	1		
2021	(60,127,569)	142,637,736	(30)		

Attention was not focused on developing the financial status of the fund during the year under review and although the fund's deposit account at the treasury indicated growth in the years 2017, 2018 and 2020, the financial deterioration of the fund in the years 2019 and 2021 was mainly due to the payment of incentives from the reward fund to all the officers working in the department.

crime reports based on the inspection and monitoring of the entire alcohol supply chain and the capture of irregularities.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although a committee has been appointed for the rewards fund as per Excise Notification No. 818, the meeting minutes of the committee meetings were not submitted for audit during the year to ensure that the committee reviewed the financial and operational activities according to the budget and action plan.	It has been informed that the committee reports related to the Excise Rewards Fund will be submitted for audit in the next years as scheduled.	Committee meeting reports should be submitted to the Auditor General.
(b) 26 years had passed from the effective date of the Excise Notification No. 818 dated 4 March 1994 by the year 2021 and although it was reported to the audit that they are working to revise the excise notification with considering the widening of the role of payment of rewards, no significant progress has been observed in those activities.	Excise Notification No. 818 dated 4 March 1994 has been revised to suite for the current situation and forwarded to the Ministry of Finance for approval.	The necessary amendment should be completed as soon as possible.
(c) According to information related to the raids submitted to the audit by the Law Enforcement Division of the Excise Department in relation to industrial crime raids in the reviewed year and the previous 04 years, the raid targets were gradually reduced annually from the year 2017 to the year 2020. Also, although the number of raids had increased compared to the target raids, the number of raids had gradually decreased from the year 2017 to the year 2020. Although the actual number of raids in the year 2021 was 4098, the actual planned target number of raids was reduced by 857 from 3428 to 2571 or 25 percent and it was a growth of 49 percent. Details are given below.	Industrial crime raids target has been in constant from 2017 to 2019 and officials have worked to exceed that goal in every year. The industrial crime raids target for those years had to be revised according to the closure of licensed places, disruption of the alcohol supply chain and obstacles for that based on the situation in the	Regular inspection of licensed premises.

Year	Target raids	No. of raids	Decrease/increase of the raids according to the each year	Percentage of the decrease/increase	country in the years 2021 and 2022.
2017	3613	4315	(278)	(6)	
2018	3623	3684	(631)	(14)	
2019	3623	3838	154	4	
2020	2272	2747	(1091)	(28)	
2021	2571	4098	1351	49	

- (d) There were 25 major category violations and 35 general category violations under 09 classifications according to Excise circular No. 03/2011 dated 11 August 2011 and 3093 industrial crime raids were based on reward money payments according to the information received for audit in relation for the year under review. 2071 or 67 percent of them represented common errors and it was observed that only 1022 cases or 33 percent represented major category violations. Also, 848 of those raids are related to the period from 2015 to 2019 and 2099 were for the year 2020 and 143 were for the year 2021.
- The Excise Officers Attention should be paid to the analysis of existing raid data and the use of test methods and technical methods for the purpose of more representation of violations of the main category of conditions.
- The Excise Officers have been instructed to be more diligent and vigilant in the inspections of the excise licensed premises and in the investigation of complaints against the licensed premises. The focus has been on expanding the inspection powers and using technology for that.

3.2 Operational Inefficiencies

Audit Observation

An amount equal to the annual depreciation on fixed assets is credited to the Depreciation Reserve Fund in the treasury and the fund has Rs. 65,385,315 was there as at 31 December 2021. The approval of the Deputy Secretary of the treasury to get Rs. 50 million for the purchase of computers, accessories and furniture in the year 2021 for the Excise Department on 05 August 2021 was not able to be implemented.

Management Comment

The supply of computers has been delayed due to import restrictions in the country. 70 computers have been received.

Recommendation

The allocation allocated by the budget should be used to fulfill the objectives of the fund.

3.3 Problematic Transactions

Audit Observation	Management Comment	Recommendation
Payment of Excise Reward money Rs. 109,709,955 in rewards money had been paid from the reward fund to all employees working in the department under various bases. It was also observed that the approval of committee had been given for revising of the expenditure limit of the fund with the amendment of the Excise Notification No. 818 and the possibility of reduction in the industrial crimes of the officers due to the delay in the payment of allowances and to be submitted a cabinet memorandum to amend Excise Notification No. 818 and to receive money from the rewards fund until the approval of the cabinet.	No comments.	Proposed amendments to Excise Notification No. 818 should be made to comply with the relevant legal provisions.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

The financial statements of the fund for the year under review had been submitted to the Auditor General on 28 February 2022.

4.2 Tabling of Annual Performance Report in Parliament

Performance reports indicating the progress of objectives, activities were not prepared for the fund till the year under review. Furthermore, the annual performance reports of the fund were not tabled in Parliament from the beginning of the fund till last year and the performance report of the rewards fund for the year under review was tabled in Parliament on 28 June 2022.

4.3 Internal Audit

Audit Observation	Management Comment	Recommendation
Although 03 audit programmes have been planned for the fund according to the internal audit programme related to the reviewed year, the reports related to those audits were not submitted to the audit.	It has been informed that due to the Covid epidemic situation, the attendance at the office was 50 percent and the audit activities could not be carried out.	Effective internal audits should be carried out to perform the tasks objectives of the fund related to the financial and operational performance according to the objectives of the fund.

4.4 Budget Control

Audit Observation

A variation of 6 percent to 41 percent was observed between the budgeted figures and the actual figures in the year under review in two revenue subjects and variations ranging from 7 percent to 100 percent were observed in eight expenditure subjects. Accordingly, it was not observed that the budget document has been used as an effective control tool.

Management Comment

It has not been possible to utilize the settlement fee receivings and allocation as estimated due to the Covid-19 epidemic situation..

Recommendation

Budget information and actual information should be analyzed monthly and quarterly to achieve revenue targets and effective utilize allocations.