

## **Excise Rewards Fund - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Excise Rewards Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 reported 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 2022, 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.

### 1.5.1 Audit Observations on the preparation of Financial Statements

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A carrying amount of Rs. 63,033,460 had been stated instead of the cost amounting to Rs. 141,718,128 at the beginning of the year under review related to the assets of the non-assets register included in the Financial Statements.	That it has become difficult to separately identify the physical assets and that only a documented value has been in existence from a long time ago and therefore no proper accounting policy has been identified.	Action should be taken as per Sri Lanka Public Sector Accounting Standard No 01.
(b) Non-current assets amounting to Rs. 49,687,107 purchased in the year under review and the final balance of the depreciation reserve fund amounting to Rs. 18,974,695 deposited in the Treasury, had not been mentioned under investment activities in the cash flow statement and in the final cash balance respectively.	That it is not required to mention this in the cash flow.	Action should be taken as per Sri Lanka Public Sector Accounting Standard No 02
(c) Although the error of a surety deposit of Rs.500,000 being accounted as composition revenue in the preceding year had been corrected in the statement of changes of equity, it had been stated again in the statement of financial position.	Accounting for by mistake as composition fees of Surety deposits of the preceding year amounting to Rs. 500,000, had been adjusted in the preceding year adjustments column.	Action should be taken as per Sri Lanka Public Sector Accounting Standard 01
(d) Composition fees amounting to Rs.9, 651,195 and cigarette fine revenue of Rs.960,400, received in cash to the Divisional Excise Offices in the month of December of the year under review, had been accounted for as receivable income in the financial statements.	Although the relevant money had been banked by 31 12 2022, it has become difficult to account for due to the difficulty in bringing down the reports related to those revenues from the Divisional Offices to the Head Office.	All revenues received in cash related to the accounting period, should be identified and indicated in the financial statements.

- (e) Surety deposits of Rs. 8,200,000 in respect of 17 unsettled technical crimes related to 04 alcohol manufactories and one distillery in the surety deposit account in the Department of Excise had not been mentioned as surety deposits of the fund. That action will be taken to maintain a separate surety deposit account for the excise rewards fund following the amendment of the Excise Ordinance in the future. Action should be taken to account for after the identification of surety deposits related to the fund.
- (f) Without allocating liabilities of the previous year, payments amounting to Rs. 6,027,639 for the direct raids related to the preceding year and payments amounting to Rs. 153,640 for paying incentives for the other staff, had been mentioned in the payment of ar composition bitration rewards funds in the year under review. That action will be taken to correctly mention the liabilities in the preparation of final account in the next year. Provision should be made for the liabilities in the preparation of financial statements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the management	Recommendation
Paragraphs 17(a) I and II of the Tobacco Tax Act No. 8 of 1999.	Although arrangements should have been made to establish a tobacco rewards fund with a share of 25 per cent of received cigarette fines, no such fund had been established until the end of the year under review. The annual allocation amounting to Rs. 21,440,516 had been indicated under long term liabilities as an amount payable to the fund.	Preparation of relevant amendments has been initiated.	Action should be taken to establish a Tobacco Rewards Fund as per the provisions of the Tobacco Tax Act No. 8 of 1999.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 48,444,530 and the corresponding deficit in the preceding year amounted to Rs. 71,662,784. Therefore, an improvement amounting to Rs.120,107,314 was observed in the financial result. This improvement had been mainly caused by the increase in the arbitration fees and cigarette fine income by Rs. 38,435,933 or 31.7 per cent and the decrease by Rs. 76,708,784 or 49 per cent of the expenditure including the rewards fund payments and depreciation.

## 2.2 Going Concern of the fund

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	At the inspection of the financial results of the last 4 years and the year under review and its impact on the net assets, a deterioration was observed in the financial result of the fund from 2019 to 2021 and as a result, a considerable gradual deterioration was observed in the net assets in those years. Due to the improvement of the financial result of the year under review, net assets had increased by 19.17 per cent as compared with the previous year.	Comments have been given as to the correctness of the observation.	Action should be taken to increase the income of the Fund from operational activities.
(b)	At the inspection of the net cash flows of the Excise Rewards Fund of the year under review and the last 04 years and its impact on the balances of the deposit accounts of the Fund, a considerable gradual deterioration was observed in the balance of the deposit account of the Fund in the period from 2018 to 2021. An increase of 34.96 per cent was observed in it as compared with the preceding year.	Comments have been given as to the correctness of the observation.	Action should be taken to strengthen the financial position of the Fund.

## 3. Operational Review

### 3.1 Management Inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	As per chapter 02 of the Excise Circular No10/2019 dated 27 December 2019, subject to the amending of the current Excise Notification No. 818 dated 27, December 2019, the rewards fund had contributed in making incentive payments to all officers serving in the Department from March 2019. Accordingly, a sum of Rs. 55,376,838 had been incurred from the Excise Fund, with the sum amounting to Rs. 54,243,053 in the year under review and including the amount of Rs. 1,133,785 paid on 17 occasions to officers who did not claim for incentives in the preceding years. Although 27 years have elapsed by the end of the year under review	Taking into consideration of the expansion of the role of the Department, the Excise Notification No. 818 dated 4 March 1994 has been amended to suite for the current situation and forwarded to the Ministry of Finance for approval on 03.03 2021.	Amending of the Excise Notification No. 818 dated 4 March 1994, should be completed immediately.

since the start of amending activities of the relevant Excise Notification aimed at making legal provisions to grant incentives to all officers of the Department, such activities had not been completed.

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| (b) | The information with regard to the appointment of the current committee members of the rewards fund had not been forwarded to the audit as per the Excise Notification No. 818, and the budget of that committee, physical and financial progress in accordance with the Action Plan, minutes of the meetings held for the inspection of the review of operational activities had not been forwarded to the audit. | As per the Excise Notification No. 818, information regarding the appointment of committee members of the reward fund will be properly forwarded to the audit in the year 2023. | As per the action plan, operational activities should be reviewed and reports of the committee meetings should be forwarded to the audit. |
| (c) | No amount had been used out of the sum amounting to 4,000,000 allocated in the year under review for the purposes mentioned in the Excise Rewards Fund in the Excise Notification No. 818 dated 04 March 1994, such as training and education activities, sports, entertainment and welfare programmes, commendable services and acts of bravery, special duties and special raids.                                | Non receipt of revenue to the Excise Rewards Fund in the year 2022 as was estimated.  | Provision should be utilized to achieve the purposes of the Excise Rewards Fund.  |

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to information related to the raids, giving of raid targets had gradually reduced annually from the year 2017 to the year 2020. Also, the number of raids carried out as against the targeted raids had increased. Although the raid targets had been revised with the previously planned targeted raids in 2021 and in the year under review had been reduced by 857 and 1,574 respectively, a gradual increase was reflected in the actual number of raids in those years. It was observed that it had been increased only by 1 per cent in the year under review as against 2021.	The targets have been revised owing to the Covid pandemic situation and the fuel crises and the economic crises prevailed in the country in the year 2022 as well as 2020 and 2021.	Raids should be carried out in a way that the expected objectives of the Excise Act are fulfilled.

- (b) At the inspection of the technical crime raid fines analysis, 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 according to the information received related to the year 2022 audit, 3,627 technical crime raids had been taken into consideration for making reward money payments. Out of that number, 2572 or 71 per cent represented fines for general category violations and it was observed that only 1055 cases or 29 per cent represented fines major category violations.
- It can be observed that the progress of the successful raids has decreased.
- Attention should be paid towards achieving a better progress of the technical crimes raids.

#### 4. **Budgetary Control**

##### **Audit Observation**

Since variations of 6 per cent to 14 per cent between the budgeted figures and the actual figures in the year under review in 02 revenue subjects and variations ranging from 10 per cent to 452 per cent in 08 expenditure subjects, were observed, it was not observed that the budget has been used as an effective management tool.

##### **Comments of the Management**

The situation prevailed in the country in the year 2022 was responsible for this.

##### **Recommendation**

The budget should be used as an effective management tool.