

Head 248 - Excise Department

1. Financial Statements

1.1 Qualified Opinion

Head 248 - The audit of the financial statements of the Excise Department for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 containing my comments and observations on the financial statements of the Excise Department was issued to the Accounting Officer on 30 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 19 June 2023 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of the financial position of the Excise Department as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles

1.2 Basis for Opinion

My opinion is qualified based on the matters appear in Paragraph 1.6 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 opinion.

1.3 Responsibilities of the Chief Accounting Officer and Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Accounting Officer.

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

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of 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 exercised professional judgment and maintain professional skepticism 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 its internal control.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- 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 Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

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

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Receipts of Revenue

The following deficiencies were observed while accounting for the receipts of revenue related to the Department.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) A revenue from application fees, toddy tapping license fees and toddy collection station fees totalled to Rs.16,385,875 to be included in excise revenue and a revenue of Rs.99,650 to be included in the tobacco tax income for which had been collected and banked by 19 Regional Offices of the Department in December of the year under review had been understated in the accounts.	Even though it has been the banked as at 31 December 2022, these revenues have become difficult to account for as at 31 December due to the difficulties in getting the reports related to those revenues from the Regional Offices to the Head Office.	Excise revenue related to the year should be accurately identified and accounted for.

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| <p>(ii) A revenue of Rs.1,256,267 collected and banked by 19 Regional Offices of the Department in December of the year under review and to be credited to the government revenue, had been understated.</p> | <p>do</p> | <p>Arrangements should be made as per instructions and regulations of Departments of State Accounts and Treasury Operations.</p> |
| <p>(iii) A Non-potable spirits revenue amounting to Rs. 1,930,440 as a foreign liquor revenue and a foreign liquor revenue amounting to Rs. 931,500 as an imported methanol tax revenue and a sticker income of Rs. 2,130,000 as a license revenue had been brought to accounts in classifying of revenue .</p> | <p>This has happened due to a mistake made in revenue classification. Officers were instructed to account for accurately for revenue classification in future.</p> | <p>The relevant revenue should be accurately identified, classified and accounted for according to each source of income.</p> |

(b) Recurrent Expenditures

The following deficiencies were observed while accounting for expenses related to financial statements.

Audit Observation	of	the Recommendation
	Accounting Officer	

(a) Refunds of Excise Duty on Liquor Export

The following matters were observed in respect of refunds of excise duty amounted to Rs. 5,152,864,440 for the export of 12,211,501 liters of liquor in 26 cases pertaining to 03 manufactories according to the duty refunds submitted for the year under review in connection with the export of undenatured potable sales and bottled liquor mentioned in Excise Notice No. 10/2019 issued in accordance

with the Extraordinary Gazette Notice No. 2155/19 dated 27 December 2019 .

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| <p>(i) The net excise revenue after deducting applicable refunds from excise duties on exports of locally produced liquor by manufactories pertaining to the year 2022 had been accounted for and the excise duty refunds value had not been shown as an expense.</p> | <p>The duty refunds value has been set off against revenue under the Excise Revenue Head and shown in the footnotes.</p> | <p>Actions should be taken to refund the duties pertaining to liquor exports as per the provisions made by the Treasury Operations Department and State Accounts Department.</p> |
| <p>(ii) The specific method of accounting relating to refunds had not been recognized by the end of the year under review. It was observed that there is no indication of information related to excise duty on liquor export in the Treasury Accounts.</p> | <p>As soon as a final decision is taken after discussions with the Ministry, accounting related to refunds of excise duty will be done.</p> | <p>Information regarding the refunding of excise duty on export of liquor should be indicated in the accounts.</p> |
| <p>(iii) Although it had been recommended by Treasury Operations Department and State Accounts Department that the full amount of duty payable by the liquor manufacturers to the Government should be accounted for as revenue and the duty concession given to them should be accounted for as refunds from revenue and that it would be appropriate to make legal provision to empower the Commissioner General of Excise to make refunds from revenue in terms of Financial Regulation 118, actions had not been taken accordingly by the end of the year under review.</p> | <p>Because of the difficulties in obtaining the required imprests for making the refunds from the revenue and as there are practical problems of being adapted according to F.R.118, arrangements are being made to obtain necessary approval to make payment for the same under appropriate Expenditure Head.</p> | <p>Actions should be taken in terms of the Financial Regulation 118 .</p> |

- (iv) It was observed that the requests had been made from the Secretary of the Ministry of Finance to provide an expenditure object appropriate to the Excise Department for refund of duty relating to liquor exported and allocate the necessary funds for the same and also to give the necessary approval for accounting for the excise duty by the said expenditure object.
- This has been discussed in the Audit and Management Committee Meeting of the Ministry and it was decided to adopt the existing system due to difficulties in payment.
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The provisions had not been received under any expenditure object for refunds even by the end of the year under review.

(b) Payment for Sticker Project

- (i) The contract for the supply of stickers and services had been awarded to a foreign private company for establishing a security sticker and sticker management system based on build own an operate under the Sticker Project. In the examination on payment up to the end of the year under review, a sum of Rs.494,921,349 and Rs. 14,495,480 to the contract company for 217,210,000 paper base stickers for locally produced liquor and 12,016,135 paper base stickers for imported foreign liquor respectively and only a sum of USD 500,000 from the USD 2,249,245 payable to the contractor for 375,500,000 digital features had been settled. In approving and certifying the
- Although only USD 500,000 was settled on the relevant date, a sum of USD 2,118,374 has been paid by now. There are the bills valued at USD 879,621 to be settled. A sum of USD 2,118,374 has been paid so far out of USD 2,997,995 to the contracted company for 500,500,000 digital features and bills for USD 879,621 have remained to be settled.
- It should be confirmed in writing that the contractor has completed the relevant part of each work from all the works under the agreed scope as per the agreement.

payments, it had not been ascertained whether all the tasks agreed as per the respective agreements, had been completed.

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| <p>(ii) It was observed that the Rs. 2.27 each for a paper base sticker and Rs. 2.19 each for a digital features are spent to purchase a sticker from the contracted company exceeding the amount of Rs.2 charged for one paper base sticker and one digital feature from liquor manufacturing companies.</p> | <p>Due to the rapid increase in the value of the Dollar, the institution has to pay more than the amount of Rs2. Requests have been made to the Ministry of Finance to increase the amount of Rs.2 charged for a sticker. Moreover, proposals have been submitted to the Sticker Management Committee to increase the price of the sticker.</p> | <p>Actions should be taken to analyze the cost of purchase and data of sticker sales revenue and implement it in a way that is not disadvantageous to the Government.</p> |
| <p>(iii) In addition, as the cost may increase further with bank commissions and service charges when paying for stickers to the contracted company in foreign currency, the attention had not been drawn to avoid the loss caused to the Department.</p> | <p>do</p> | <p>do</p> |

(c) Deposits

The following deficiencies were observed while accounting for deposit payments and balances related to financial statements.

Audit Observation

The total of Rs 363,250 related to 04 security deposits received at the Regional Offices of the Excise Department in the year under review had not been entered in the security deposit account 6000-0-0-1-0-122 .

Comments of the Accounting Officer Recommendation

Even though the money has been banked by 31 December 2022, it was difficult to account for these revenues as at 31 December due to the difficulties in getting the reports related to those revenues from the Regional Offices to the Head Office.

Arrangements should be made to receive income information from Regional Offices and account for.

(d) Imprest Balance

The following deficiencies were revealed while accounting for the imprest balance.

Audit Observation	Comments of the Accounting Officer	Recommendation
An amount collected and banked in the account 0007041628 in December of the year under review by 19 Regional Offices of the Department totaled to Rs. 28,716,637 had been settled to the General Treasury in less.	Due to difficulties in getting reports from Regional Offices to Head Office, it has been difficult to account for these revenues as at 31 December.	Actions should be taken in terms of Treasury Circulars.

(e) Lack of Evidence for Audit

Audit evidences were not submitted in respect of the following transactions.

Audit Observation	Comments of the Accounting Officer	Recommendation
The relevant evidences pertaining to Rs.4,345,717 that had been adjusted to excise revenue on 04 occasions and for an amount of Rs.1,836,572 that had been refunded from revenue were not submitted for audit.	It is kindly informed that it is not possible to indicate through journal entries. The amount of Rs.1,836,573 is a refund made with the approval of the Treasury.	Journal entries and related evidence pertaining to adjustments in accounts should be presented during the audit of financial statements.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The budgeted excise revenue for the year under review was Rs. 180 billion and it had been revised again up to Rs. 185 billion. A revenue from duties amounting to Rs. 165 billion had been collected in the year under review. It was 91.7 per cent as compared to the original estimate and 89.2 per cent as compared to the revised estimate. It was observed that the revenue in the second and third quarters of the year under review had decreased by the range of 05 per cent to 15 per cent.</p>	<p>It was impossible to meet the expected revenue targets in the second and third quarters due to the impact of the social and political crisis situation, the closure of the license points, the transportation difficulties caused by the fuel shortage, the collapse of the tourism business, etc.</p>	<p>Arrangements should be made to achieve expected revenue targets by executing proper supervision.</p>
<p>(b) Even though the estimates had been revised, the revenue targets of the licensed hard liquor manufactories had not been revised accordingly. In examining the initial revenue target of each liquor manufactories and the revenue collected during the first 09 months of the year under review, only 04 institutions had exceeded the targetted revenue limit given in the range of 03 per cent to 64 per cent. The percentage of targets which were not met by hard liquor manufacturing companies had ranged from 08 per cent to 100 per cent.</p>	<p>Shortage of ractified spirits, increase in the price of liquor, decrease in demand, economic problems related to manufactories, problems in the import of liquor sweeteners, increase in the cost of products, closure of manufactories due to various maintenance activities had impacted to failure of achieving revenue targets.</p>	<p>Arrangements should be made to achieve the expected revenue targets related to other sources of revenue including hard liquor manufactories and grain liquor manufactories.</p>

- (c) In the examination of information related to the first 09 months period regarding 20 licensed hard liquor manufactories in the year under review, 18 hard liquor manufacturing companies had contributed 68.80 per cent to the total income and it was observed that a 89.19 per cent contribution depends on 03 companies. Moreover, 2 grain liquor manufacturing companies had contributed 31.20 per cent to the excise revenue.
- A sum of Rs. 172,928,367 had been received as import duty in 133 cases from 13 out of 33 entities registered as importers during the examination of foreign liquor imports in the year under review and in 39 cases, duty revenue of Rs. 120,151,976 had been collected from two entities representing 69 per cent of the import market share.
- The production quality and popularity of these companies and the high financial investment are the reason for the higher contribution in the liquor market. Existing of consumer attraction and financial investment relatively at low level, lack of research/experiments that are sensitive to market changes have caused the reduction in the contribution of the rest of the 15 liquor companies. Relatively low prices of products, international level names and high technology, being a large-scale industry, have led to the contribution of grain liquor manufacturing companies.
- An analytical review should be carried out on liquor product duty revenue and market share of each manufacturing company and by analyzing information on contribution to excise revenue thereby.
- (d) Out of 16 coconut toddy bottle manufactories one manufacturing plant had remained inactive during the year under review and an income of Rs. 525,726,800 had been earned from the rest of the manufactories and 05 out of 29 palmyrah toddy bottling manufactories were inactive and an income of Rs. 46,597,081 had also been earned from the rest of the manufactories. Moreover, the income had not received for a period ranging from 03 months to 10 months in 03 coconut toddy bottle manufactories and 10 palmyrah toddy bottle
- Non-production of toddy bottles in certain months due to lack of sales of productions and not receiving of sufficient coconut toddy to toddy bottle manufactories have affected it.
- It should focus on identifying the problems faced by the coconut and palmyrah toddy production industry, which is an industry unique to Sri Lanka and implementation of a joint plan with government agencies for the promotion of the industry.

manufactories. The follow-up actions on inactive institutions and institutions which were collected low income had not been carried out.

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| <p>(e)</p> | <p>As per Excise Notification 991 for the year under review, duties amounting to Rs. 11,237,675 had been collected in relation to 07 out of 23 hard liquor manufactories for the wastage occur exceeding the limit allowed under the Excise Notification and no duty whatsoever was levied on wastage in 17 hard liquor manufactories. Accordingly, it was not ascertained in audit that a system related to the collection of excise money is in operation for unusual wastage occurring in excess of the allowable limit for wastage occurring in the manufacturing process. Duties had not been collected by the end of the year under review for abnormal wastage pertaining to 8,307.2 liters of absolute liquor.</p> | <p>Some factories have paid duties on wastage for the year under review. Actions will be taken in future to make the relevant duties which have not levied on the wastage in manufactories/ warehouses /distilleries so far.</p> | <p>A proper system should be implemented in respect of the levy of excise duty on wastes exceeding the permissible limit.</p> |
| <p>(f)</p> | <p>In the examination of files it was observed that an excise revenue charged without specifying the facts affecting the grant of approval for 9,015 liters of absolute liquor re-vat for one liquor manufactory amounted to Rs. 30,763,726 had been refunded by the letter issued Commissioner General of Excise dated September 2022 named Refunding of duty levied on liquor re-vat.</p> | <p>Observation is accurate.</p> | <p>do</p> |

(g) Levying taxes in relation to Beedi Industry

The following observations are made.

(i) Although a tax should be levied on every beedi and cigar manufactured under the Tobacco Tax Act No. 8 of 1999, due to the fact that the relevant taxation notification was issued on 31 December 2022 with effect from the next year, the beedi cigar industry had lost tax revenue even by the year under review.

A notification has been issued under the Tobacco Tax Act No. 8 of 1999 informing that a tobacco tax of two rupees will be levied for every beedi produced in Sri Lanka on 31.12.2022 as per the Budget Proposals of 2023 .

It should have been acted as per the Notification issued under the Tobacco Tax Act No. 8 of 1999 .

(ii) Although the Excise Department had issued 774 Registration Certificates in respect of beedi/cigarettes/cigars, it was observed that only 509 institutions had renewed their registration by 31.03.2022 and follow-up actions had not been carried out till the end of the year under review whether the 265 licensees carry on businesses without renewing their registration.

There are about 585 institutes at active level. All Assistant Commissioners of Excise, all Superintendents of Excise and all Superintendents of Excise have been instructed to carry out proper inspection in respect of all beedi or cigar manufacturing institutions whose registration certificate has expired but the period of registration certificate has not been extended up to now.

follow-up actions should be carried out in respect of the institutions whose certificates of registration have not been renewed.

(h) Arrears of Revenue - Excise Duty

The following observations are made.

(i) A total of Rs. 5,514,884,195 should have been received to the Excise Department as total arrears of duties and delay charges such as Rs.5,491,066,488 from liquor manufacturing companies and Rs. 7,244,372 from toddy manufactories and Rs.16,573,335 from distilleries, as

An amount of Rs. 497,337,372 has been collected by 15.05.2023, as arrears of duties and surcharges from the amount that should have been collected.

The outstanding duty amount of Rs. 7,244,372 which should

Arrangements should be made to collect arrears of duty and delay charges properly as per the provisions of the Financial

per the statement of arrears of revenue submitted for audit in terms of F.R. 128(2)(c) under Financial Regulation 176 (1) as at the last day of the year under review. It was observed that it was an increase of Rs. 964,210,712 equal to an increase of 21.18 per cent in comparison with the arrears of revenue of Rs.4,550,673,483 as at 31 December 2021. Moreover, due to non- recovery of initial arrears for these increases in arrears, the delay charges calculated for them had also affected.

(ii) An income totalled to Rs. 2,389,692,257 in relation to 04 production/distillery institutions had not been able to recover for more than 5 years by the end of the year under review. Even though the agreement on the payment of outstanding excise duty and delay charges had been entered into at the time of drafting the basic facts required for filing cases in relation to 03 institutions, the respective institutions had violated the agreements and defaulted to pay the arrears and delay charges.

(iii) One hard liquor manufacturing company which was suspended production had been contracted to commence production on 23 June 2021. The Department had taken actions to suspend the production again. The approval was given for

have been collected as at 31.12.2022 from the toddy manufactories and the surcharge amount to be charged on it has been collected.

An amount of Rs.1,991,075 has been collected from the amount of Rs.16,573,335 that should have been collected from the distilleries.

The files have been sent to the Legal Division of the Excise Department to take legal actions against one of the firms. It is not satisfied with the arrears of duties and surcharges payable in another company, an independent committee was appointed on request an investigation and actions will be taken to recover according to the final decision report of the committee.

Actions will be taken to recover the arrears of duties as per the judgment of the pending case of another company.

Two installments have been paid as per agreements entered into out of arrears of duties and delay charges. Seven installments are outstanding furthermore. Letters have been sent to pay these arrears, and

Regulations.

do

Actions should be taken according to the legal provisions.

the commencement of production activities in the year under review again and, there was an outstanding duty due from the said company amounting to Rs. 1,292,877,138 and delay charges of Rs. 1,456,079,040 as at the last day of the year under review. It was observed that the payment of arrears as contracted was defaulted.

discussions have been held with the company on several occasions regarding the recovery of these arrears.

(i) Arrears of Tobacco Tax Revenue

(i) According to the information obtained in the written inquiries made by the Excise Department to the Sri Lanka Customs, it was identified that 03 institutions had imported tobacco without obtaining registration certificates. A tax totalled to Rs. 9,836,528 was outstanding from those 03 institutions as at 31 December of the year under review.

It has stipulated to pay Rs. 560,550 in 06 equal installments as Rs.93,500 each from one institution. Another organization representing Rs.5,429,350 has so far not agreed to enter into a contract or pay money and is to act on the advice of the Legal Division. It has been reported that all the owners of another company who bears arrears of tax amounting to Rs. 3,659,128 have left the country. Actions are to be taken in the future according to the instructions of the Attorney General.

To take actions to collect arrears of tax according to agreed installments as per the agreement and arrangements should be made in terms of legal provisions regarding breach of contract.

(ii) Although the cancellation, suspension or fixation of fine on Certificate of Registration can be done when the holder of the registration fails to pay any tax under the Tobacco Tax Act, Excise Ordinance Act, Excise Duty (Special Provisions) Act, in terms of Section 6 of the Tobacco Tax (General) Order No. 01 of 2009 published in the Gazette on 26

The importers have taken actions to import tobacco without obtaining registration certificates from this Department during the initial phase of the implementing the Act and due to non-payment of relevant taxes by three importers issuance of certificate of registration has been suspended. But in some

Actions should be taken as per Section 06 of the Tobacco Tax (General) Order .

October 2009, the certificates of registration for these 03 institutions had been renewed in previous years without considering it.

cases, the relevant certificates of registration were renewed as per the agreement entered into to pay the relevant arrears of tax.

2.2 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) A provision of Rs 376,500,000 had been made available for 10 recurrent expenditure objects and out of which a total Rs. 342,448,827 had been utilized. The total of savings of those expenditure items was to Rs 34,051,173 . It had ranged from 7 to 36 per cent of the net provision made available.</p>	<p>Provisions were saved due to make arrangements for public expenditure management by J.A.C.03/2022, fuel constraints throughout the year, Covid pandemic, inability to procure goods, shortage of raw materials, failure of continuous power supply.</p>	<p>Actions should be taken to utilize the recurrent provision effectively and efficiently to fulfill the purposeful tasks according to the Vision and Mission of the Department.</p>
<p>(b) Even though a provision of Rs. 96,500,000 had been made available for 05 capital expenditure objects, out of which, only Rs.30,419,753 had been utilized. The saving of expenditure objects had ranged from 8 to 56 per cent of the net provision made available.</p>	<p>do</p>	<p>Actions should be taken to effectively and efficiently utilize capital allocations under infrastructure to fulfill the purposeful tasks according to the Vision and Mission of the Department.</p>

2.3 Non- compliance with Laws, Rules and Regulations

The instances of non- compliance with laws, rules and regulations are analyzed below.

Reference to the Laws, Rules, Regulations etc.	Audit Observation		Comments of the Chief Accounting Officer	Recommendation
	Value Rs.	Non-compliance		
<p>i) Establishments Code of the Democratic Socialist Republic of Sri Lanka</p> <p>Chapter XXIV and the provisions of Budget Circular No. 118 dated 11 October 2004</p> <p>Paragraph 03 (e) of Public Finance Circular No. 05/2019 dated 27 June 2019</p>	6,305,135	<p>A debt balance of Rs. 6,305,135 were receivable from 08 deceased officers, 10 dismissed officers, 19 retired officers and 18 suspended officers. Out of which, a total receivable balance of Rs. 401,990 of one deceased officer and one retired officer had remained outstanding for a period of 2-3 years. Further, a sum of Rs. 628,329 receivable from 05 dismissed officers and two suspended officers had remained outstanding for more than 5 years.</p>	<p>It is stipulated to recommend the writing off of misplaced loan balances of 02 files of two officers and send to Ministry of Finance for approval and to inform one person to pay the debt, collecting the debts from the guarantors of two debtors and taking legal actions against the remaining two and to take actions against one officer who is accused of bribery as per the judgment.</p>	<p>Actions should be taken in terms of Establishments Code and Budget Circulars.</p>

(ii)	Section 12 of the Excise Ordinance as per the Regulation in Excise Notification No. 10/2019	Although the Commissioner General of Excise has to provide an acceptable guarantee or bank guarantee for the excise refunds related to the export of liquor, the guaranteed export value kept by 03 institutions was not revealed.	The respective companies have been informed to increase and submit the bank guarantee.	Arrangements should be made as per the Section 12 of Excise Ordinance according to the regulation of Excise Notification No. 10/2019 .
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2.4 Deposit Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though it had elapsed more than 02 years for the 02 deposits totalled to Rs.3,470,567 and the 03 deposits totalled to Rs. 1,851,627 in the 02 Deposit Account No.s 6000/0-0-18-0-119 and 6000/0-0-16-0-126 respectively, actions had not been taken in terms of Financial Regulation 571 by the end of the year under review.	Arrangements are being made to settle the sum of Rs.3,470,567 in respect of 02 deposits pertaining to Deposit Account No. 6000/0-0-18-0-119 and arrangements are being made to settle a total of Rs. 1,851,627 in respect of 03 deposits pertaining to Deposit Account No. 6000/0-0-16-0-126.	Actions should be taken in terms of Financial Regulation 571.

2.5 Operating Bank Accounts

The deficiencies revealed during the audit test checks conducted regarding the operating of bank accounts are shown below.

Audit Observation	Comments of the Accounting Officer	Recommendation
Although the Schedule viii of the financial statement format should indicate the status of all bank accounts opened by the Department as at the last day of the year under review, information about the bank account maintained in the Bank of Ceylon in relation to revenue collection and the balance of Rs. 13,445,283 as at the end of the year under review had not been provided.	It had not been disclosed.	The status as at the last day of the year in all bank accounts should be indicated in Schedule viii of the Financial Statement Format.

3. Operating Review

3.1 Vision and Mission

Audit Observation	Comments of the Accounting Officer	Recommendation
The Mission was stated under 06 points for the Vision such as to be the most respected and responsible government agency dedicated to increasing government revenue through formal regulation of the liquor and tobacco industry in the Excise Department and although 09 tasks and 10 values had been identified to fulfill 12 objectives Non-establishment of the risk	Establishing the risk management system, establishing standards for the toddy and sake production industry and operating the excise laboratory are expected to be completed promptly in the year 2023.	Establishment of risk management system, revenue management systems and standards for the toddy and sake production industry, establishment of excise laboratory.

management system, non-establishment of standards for the toddy and sake production industry, the delay in the operation of the excise laboratory, the delay in establishing a revenue management system had made an adverse effect on the fulfillment of the expected Vision, Mission and Role.

3.2 Planning

The following deficiencies were revealed in the preparation and implementation of the Annual Action Plan in accordance with Paragraph 03 of the Public Finance Circular No. 02/2020 dated 28 August 2020.

Audit Observation	Comments of the Accounting Officer	Recommendation
Targets were given only to production organizations related to the production of hard liquor and grain liquor pertaining to the main sources of revenue in the Annual Action Plan and such targets had not been planned for other 06 sources of revenue.	It has been planned to present excise revenue targets separately in relation to other revenue sources in the future.	Relevant targets should be given to the sources of income included in the Annual Action Plan.

3.3 Delays in Execution of Projects

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Proposed Revenue Administration System of Excise Department</p> <p>This system named (RASED) has been initiated from December 2020 for the implementation of a new reformed computer information system and the Draft Proposed</p>	<p>Even though the steps were taken to improve it on the advice of the Ministry our Department has not received the SRS letter with their written comments or suggestions for that draft so</p>	<p>Actions should be taken to establish the Proposed Revenue Administration System expeditiously and</p>

Revenue Administration System Software Requirements Specification Document of Excise Department along with 15 Functional Areas, 3 Monitoring and Evaluation Modules and 12 Support Modules had been forwarded to the Department of Information Management, Ministry of Finance for enhancement with their observations. Procurement activities relating to procuring a client for software development had been delayed due to delays in preparation of detailed requirement specifications of software systems, failure of providing continuous service of experts from the Ministry and delays in obtaining approval for financial proposals related to the proposed consultancy service. Even though a sum of Rs. 100 million had been provided in the year under review, no expenses had been incurred during the year.

(b) Digital Features Management System

Awarding the contract for supply of stickers and services to Indian Contracting Company to establish a security sticker and sticker management system according to the approval of the Cabinet dated 17 October 2017 based on build own an operate with the primary objective of reducing the use of liquor which were not paid taxes or duties, further securing excise revenue and preventing counterfeit liquor and it had been contracted with the Company on 21 September 2018 for a period of 05 years.

It had been functioned from 20 July

far.

A Preliminary Procurement Technical Committee has been appointed. The measures have been taken to obtain the consultancy service from University of Moratuwa for re-registration of licensees through the online system and making the basic arrangements for the implementation of electronic payments. In the view of the bad situation in the country, a software development did not take place in the year 2022 as planned.

achieve the desired objectives.

A number of 551,615,000 paper base and digital features had been issued to factories for affixing in locally produced liquor in December 2021 and the entire year of 2022 in accordance with reports from the Supply Chain Regulatory Division and a total of 3,756,052 numbered stickers had been issued for affixing on imported foreign liquor during the entire year of 2022. Accordingly, actions have been taken to

2019 for imported liquor and although the affixing of stickers should have been started from 20 August 2019, it had belatedly commenced from 03 January 2022. The digital features for 08 liquor manufacturing establishments and affixing paper base for other manufacturing establishments were implemented and the affixing of security stickers for liquor stocks available in the market had been implemented by revising as before 01 April 2022. According to income reports and monthly account summary related to sticker income, a number of 555,371,052 paper base and digital features had been issued to be used for domestic and foreign liquor up to December 2022 and an income of Rs. 1,155,016,308 had been earned. Although the Provisions of Excise Notification 07/2021 should be notified 06 months before, the approval had been given to follow the method of affixing security stickers in a very short time whereas digital technology has been implemented in 03 manufacturing companies. The following matters were observed in this regard.

issue a number of 555,371,052 paper base and digital features in total and an income of Rs.1,110,742,104 had been earned from it.

- (i) Failure of reporting of follow-up regarding the creation of a new design plan in relation to the used stickers, as the existing agreement with the contract company expires in September 2023, although an awareness was given to take steps to correct the technical and technical defects in connection with the moving of the project forward making aware the Secretary of the

Discussions have been held with the relevant contract company in order to create a new design plan for the stickers to be used in the future and further the suggestions about this new design plan have been submitted to the Sticker Management Committee by now.

To create and implement a new plan.

Treasury had only been done.

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| <p>(ii) Although it is an essential factor to have the approved digital features on each bottle or can before reaching the consumer, failure of implementation of the mandate of, 'should not be released to the market without digital features' continuously due to malfunction of digital features printing machines installed in factories.</p> | <p>It is an essential factor to have approved digital feature or paper base on every bottle and can before reaching the consumer. However, since the production capacity of 02 companies' production per hour is very high, it has been observed that digital features were not printed on some bottles while printing digital features from the digital printers of those companies. The bottles are identified separately and reprinted by now , to avoid that practical problem. Further, the need to use modern machine tools to overcome these problems has now been communicated to the contracting company.</p> | <p>To take actions to avoid the practical problem of failure of printing the observed digital features</p> |
| <p>(iii) In the audit test check carried out in one of the factories of a major company implementing sticker projects under the digital features system the printing machine was in operation under the supervision of the contracting company and when the machine was installed in between 11 January 2022 and 31 January 2023, that is, approximately 13 months the printer machine was inactive on 813 occasions as per the inspection records of the officers of the Excise Department. A number of 4,904,369 liquor bottles had been released in the market without features printed on them in a manner contradict with Excise Order No.</p> | <p>The digital features printing had delayed due to the practical problems with the machines at the beginning of this project in that factory. Arrangements have been made for continuous digital features printing by avoiding the practical problems of those machines so far. Further the contracted company has been informed to bring in the latest machinery for the same to avoid the practical problems of the machines.</p> | <p>Arrangements should be made to avoid practical problems in machines.</p> |

07/2021 during the period from 11 January 2022 and 31 January 2023 .

(iv) Even though a software had been introduced to identify a bottle of liquor, counterfeit liquor or genuine liquor to the general public, it was observed that there were problems with the Reporting Module. Arising of problems in operations because of delay in imparting formal training on revised software due to lack of knowledge of users, failure of assigning a Project Manager and a Software Analyst and failure of obtaining complete details regarding the operations when required due to the lack of development of the reporting module, and necessary facilities for comparison of contract company with Excise Department or physical stock verification of manufacturers had not been provided by the software.

The Excise Department has introduced a software to identify counterfeit liquor or genuine liquor bottle for general public . Although there were problems with it and its Reporting Module at the beginning, all those problems have been solved by now.

Arrangements should be made to solve the problems related to the software and Reporting Module and to promote other facilities.

(v) A device had not been introduced for the failure of getting monthly partial printing and non-printing report through the Module, arising constant technical problems generated by the Reporting Module to verify the quantity of digital features printed per day with required breakdowns, failure to providing necessary facilities such as providing a detailed dashboard, monitoring real time, daily and periodic operations for Excise Department and detection of rejections during printing.

The institution has also been made aware to provide a detailed dashboard to verify the amount of digital features printed per day in relation to breakdowns to get reports on partial printing and non-printing on a monthly basis. The contractor is currently focusing on setting up a study and research division to get this dashboard and related reports. It has focused on getting the necessary reports, installing the necessary dashboard for monitoring the daily operations. Further, the necessary devices have been

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provided to every Excise Officer and the software is functioning properly by now.

(vi) Although the contracted company expresses that the digital features are automatically activated by not introducing a machine or device to identify unprinted or partially printed bottles and cans, it was observed that the failure of installation of a system so that it can be verified through the software and information is not recorded and maintained on cases where the process of Supply Chain Regulation Division at Head Office has broken down.

As mentioned earlier, the contracting agency has been informed to identify unprinted or partially printed bottles and cans, and they have proposed to set up a study and research unit to overcome these problems and further, although it has been proposed to install a rejection line to identify unprinted and partially printed bottles and cans in the manufacturing plant, it has not yet been implemented due to the lack of available space in the manufacturing plants. Further, it has focused on using latest machinery after setting up study and research division of the contractor to overcome these problems.

The Management should verify all tasks related to the system are performed properly within the agreed period according to the agreed agreement through the implementation of continuous monitoring and supervision.

(vii) As per Rule 5(2) of Excise Notification Order No. 7/2021, it was not ascertained to audit that the process of affixing digital features in bonded warehouses on the items subject to excise duty issued to duty free shops operating at airports and ports and other locations. Further, although the Mission Service, Sri Lankan Air Line and Sri Lanka Catering are not duty free establishments, a follow-up action had not been carried out on the application of stickers on the recommendation of the Sticker

Sri Lanka Customs is responsible for the process of affixing digital features in bonded warehouses on excise duty items issued to duty free shops operating at airports and ports and other locations. Excise officers are not allowed to inspect bonded warehouses and excise officers are allowed to inspect liquor bottles in duty free shops after pasting the stickers and currently the customs officers are inspecting those duty free

The Management should ensure that the process of affixing the digital features in bonded warehouses on excise duty items issued to duty-free shops is done properly by implementing continuous supervision and monitoring.

Committee.

shops. Further, the Supply Chain Regulation Division of the Excise Department issues stickers for liquor required by the Mission Service, Sri Lanka Airline, Sri Lanka Catering Institutions to the relevant customs officer and the documents signed by him certifying that the stickers have been obtained are maintained by the Supply Chain Regulatory Division.

(viii) It was not observed that whether the accurate forecast on stock held by liquor manufacturers and available in the market in relation to the quantity ordered whilst forecasting the production requirements related to 22 hard liquor manufacturing companies and 02 grain manufacturing companies in order to forecast the requirement of manual affixing of stickers. Further, although the affixing of stickers for existing stock was revised by Excise Notification No. 10/2021 dated 16 October 2021 to be completed before 01 April 2022, estimates had not been prepared about the sticker stock requirements which matches with the stock requirements of 2022.

The amount of stock owned by liquor producers and the amount of stock available in the market were forecast and sticker quantities were ordered and although the amount of stock owned by the producers can be accurately forecast, due to the changes in the market, the amount of liquor available in the market cannot be accurately forecast. Further, because of starting date of the Sticker Project has changed from time to time due to various difficulties, it was difficult to make an accurate forecast of the available liquor stocks in the market.

To identify the purpose of implementing the Sticker Project and make a realistic estimate of the risks exists.

Sticker stock requirements for the entire year 2022 cannot be accurately estimated due to the current economic situation in the country and the sticker stock has been obtained from the contract company based on

the 3-month forecasts sent from the factories.

(ix) Although any report regarding the total number of stickers affixed in respect of the total number of 16,595,500 digital features issued to 08 Assistant Commissioners of Excise and handing over the remaining stock to the Supply Division or the Sticker Division had not been made even by 14 October 2022, and also a total of 213,540 stickers were returned out of a total of 7,435,000 stickers given to the office of the Assistant Excise Commissioner, Western Provinces (1) and (II), it was not ascertain in audit whether the remaining stock of stickers totalling 7,221,460 were affixed or were in possession of the offices and a total of 2,757,410 stickers had been returned late from the stickers given to Western Province (III) and Central Province. It was also observed that 930,000 stickers had not been returned even by the date of audit.

The 8 Assistant Excise Offices have handed over the remaining sticker quantities and reports of remaining sticker quantity to the Supply Chain Regulatory Division. It was confirmed that there were no remaining stocks of stickers in those offices and all the stickers have been affixed whilst inquiry on it.

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(c) Despite the environmental protection report issued by the Central Environment Authority for the year 2021 and 2022 had not been obtained for 02 distilleries, the license period had been extended in 11 cases and 09 cases respectively. Accordingly, it was not ascertained in audit the way of verifying the compliance of the system for disposal of solid waste and sewage as per the provisions of the National Environmental Act.

The license has to be issued without having the environmental protection license .

The licensee has informed that actions are being taken to meet the environmental criteria of the Central Environment Authority, by starting a new compost project with the support of the government and that it can be completed within the relevant year, and

License should be issued in accordance with the terms of the National Environmental Act.

accordingly, the environmental protection license can be taken within the same year.

- (d) Although the Department should make arrangements to establish a Risk Management System to facilitate legal trade and to cease illegal trade, such a system had not been established even by the end of the year under review.

Basically, a relevant committee has been appointed to identify and study those risk areas. It was failed to get the services of a person with relevant expertise. Study of methodology is being done. Further, actions are being taken to expedite the installation of RASED computer system, monitoring and testing the entire liquor supply chain, audits, inspections, quality control and regulatory activities, direct supervision of legal liquor production, new licenses for unlicensed and under-licensed areas, establishment of a new excise license system for new areas operating without licenses, and to take necessary steps to introduce a new Excise Act.

Arrangements should be made to establish a Risk Management System.

- (e) Even though the standards had been prepared under 16 criteria for 11 types of liquor together with the Sri Lanka Standards Institute and the Institute of Industrial Technology for local liquor and domestically produced foreign liquor and grain liquor in order to reduce the risk of substandard liquor production, standards-related gazette notifications had not been issued enabling to enforce production arrangements in accordance with the

Gazette notifications are currently being prepared. The letter containing all the information related to these standards and the standard as a note has been sent to all the liquor licensees.

It will be done as soon as possible to speed up the preparation of standards for toddy and sake wine and the submission of gazette

Standards should be prepared and supervision should be done to ensure that liquor is produced in accordance with those standards.

standards even by the end of the year under review. Further, the standards for toddy and sake wines had not yet been prepared and as a result, the related formal regulation was also being delayed.

notices for the enforcement of those standards.

(f) The need to keep the number of technical crimes and crime raids as close as possible to the 50,000 limit, which is a key function of the Excise Department's law enforcement indicator had been emphasized by the Ministry of Finance. According to the Action Plan of the year, a number of 41,736 crime raids targets as 10,434 per quarter had been planned for the year under review. It had increased by 628 to 41,108 in the first quarter and reduced by 8,222 as crime raids to 32,886 in the second quarter and again reduced by 5,138 and revised to 27,748 due to fuel shortages, power outages and economic downturn. However, a total of 35,381 crime raids had been done.

Due to economic, social and political reasons in the year 2022, the government has revised the raid targets on two occasions due to lack of fuel, power outages and economic downturn.

Attention should be drawn on the requirement of keeping the number of technical raids and crime raids as close as possible to the 50,000 limit, which is a key function of the law enforcement function of the Excise Department.

(g) A decrease of 3,727 crime raids or equal per cent was observed in the year under review in comparing the total crime raids done during the year under review with the previous year under 04 Acts assigned the role of Excise Department.

In the troubled and uncertain situation in the island, it is possible to justify the decrease in the amount of raids in the circumstances where it was a challenge for the Excise Department officers with severe shortage of resources to carry out law enforcement operations throughout the island.

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(h) The 3,600 planned technical crime raids in the Action Plan 2022 for the year had increased by 1,244 and decreased by 1574 respectively and revised as 3,270 according to

Observations are accurate.

Arrangements should be made as per the Action Plan 2022 .

quarterly progress reports. However, a total of 4,155 crime raids had been done. Despite a 33 per cent reduction in the 2022 targets for excise duty stations in examining progress on meeting technical raids targets, 13 excise stations where the target achievement was reduced by more than 100 per cent was observed.

3.4 Annual Performance Report

The following observations are made.

- (a) The Annual Performance Report 2022 had been submitted to Parliament on 06 June 2023 as per the Format mentioned in Guideline No. 14 issued by the Department of Public Finance in terms of Paragraph 10.2 of Public Finance Circular No. 2/2020 dated 28 August 2020 .
- (b) Eight non-compliances were observed as per the Compliance Report in Paragraph 7.1 of the Performance Report of the year under review. Further, although it has been stated that the matters in sub-numbers 2.1, 2.3, 8.1 and 9.1 under sub-headings 2, 8 and 9 had been fulfilled, it was observed during the audit that those matters were not complied with .

3.5 Failure to Respond to Audit Queries

Out of 16 audit queries issued to the Department for the year 2022, answers had not been received for 4 queries even by 15 June 2023 .

4. Achieving of Sustainable Development Goals

Audit Observation	Comments of the Accounting Officer	Recommendation
The Excise Department had identified 07 targets under 05 objectives for the year under review out of 37 targets to be achieved in relation to 15 objectives as per the United Nations Sustainable Development Agenda 2030 and Directives had also been given by focusing in respect of	According to the Progress Report on Action Plan for the fourth quarter of 2022, a 65% of introduction of proper standards for liquor, 40% of establishment of laboratories and establishment of proposed eco-friendly production methods to prevent	An annual evaluation should be done in respect of the fulfillment of 07 goals under 05 goals that were identified from 15 goals under the United Nations Sustainable Development Agenda.

achieving the Sustainable Development Goals identified for environmental and social protection included in it at the meetings of the Committee on Public Accounts in Parliament. The progress reports related to the areas such as establishment of a laboratory and establishment of proposed environmental friendly production methods to prevent the generation of waste and the release of generated waste to the environment and their recycling were not furnished to audit.

generation of waste from annual liquor industry and 85% progress has been made in reducing the waste generated by releasing it into the environment and recycling and reusing it.

5. Good Governance

5.1 Providing Services to the Public

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>(a) A number of 1,552 complaints were received to the 1913 Operation Centre maintained at the Excise Head Office during the period from 01.01.2022 to 31.12.2022 and out of these, 210 complaints to the Special Operations Unit and 1,342 complaints to Regional Offices had been forwarded. It was observed that, 419 and 48 successful investigations were conducted by Regional Offices and Special Operations Unit respectively even by the end of the year under review.</p>	<p>In cases where no response has been received within 3 months after a complaint has been forwarded to the 1913 Excise Operations Centre through the ECMS system, a method of asking for excuses with the signature of the Commissioner of Excise Law Enforcement is also maintained by us.</p>	<p>Services should be provided by acting promptly on complaints received by the 1913 Excise Operations Centre .</p>

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| <p>(b) Fifty three information requests were made in relation to the year under review from 2020 and it was observed that 45 requests had not been completed.</p> | <p>Thirty seven requests for information were received by the Legal Division during the year 2020/2021 and the relevant answers/information have been provided.</p> | <p>Appropriate provision of information approved by management for information requested by the public under Right to Information Act No. 12 of 2016 .</p> |
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5.2 Internal Audit

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Even though 36 audit programmes related to 22 areas had been planned through the Internal Audit Plan related to the year under review, copies of 17 reports had been received by the Auditor General. The measures taken by the management to correct the deficiencies in the control systems in the areas of accounting, administration, operations, implementation of revenue laws, etc., which were indicated by those reports, were not reported to the audit.</p>	<p>The Internal Audit Plan relating to the year under review was revised on 15.09.2022 and planned to conduct 17 audit programmes and copies of all those audit reports have been submitted to the Government Audit Division.</p>	<p>The necessary actions should be taken by management for the rectification of observed deficiencies indicated by the audit reports by the Internal Audit Division.</p>

6. Human Resources Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) There have been vacancies in one post of Additional Commissioner General of Excise since 03 years, 01 post</p>	<p>There are vacancies in Departmental post of Additional Commissioner General of Excise, 02 posts</p>	<p>Actions should be taken to fill up the existing vacancies in order to fulfill the</p>

of Commissioner of Excise since 04 years, and 05 posts of Deputy Commissioner of Excise for 01 to 04 years pertaining to Senior Level and for that, 05 officers under attend to duties and one officer under acting basis were also performing their duties. The attend to duties with regard to the post of Deputy Excise Commissioner Administration had not been made by any officer even by the end of the year under review.

- (b) There were vacancies in 38 Senior Level posts and 77 Tertiary Level posts directly affecting the Mission of the Department. It was observed that this could adversely affect the current performance of the Department

of Commissioner of Excise and 07 posts of Deputy Commissioner of Excise due to non-availability of qualified officers and 04 officers are performing duties under attend to duties and 03 officers are performing duties under acting basis. The post of Deputy Excise Commissioner (Administration) is vacant.

Senior Level – actions are being taken to recruitment of 8 posts of Excise Superintendent. Applications have been called for the recruitment of 05 Deputy Excise Commissioner posts.

Tertiary Level - the draft notification for calling applications have been sent to Department of Examinations after receiving the Cabinet approval to fill 49 posts of Excise Inspector.

assigned role of the Department.

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