

Head 248 – Excise Department

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 248 - Excise Department for the year ended 31 December 2023 comprising the statement of financial position, statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Excise Department was issued to the Accounting Officer on 31 May 2024 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 01 July 2024. This report is presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Excise Department as at 31 December 2023, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

1.5 Report on Other Legal and Regulatory Requirements

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

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

1.6 Comments on Financial Statements

1.6.1. Accounting Deficiencies

(a) Receipts of Revenue

The following deficiencies were observed in accounting receipts of revenue relating to the Department.

	Audit Observation	Comment of the Accounting Officer	Recommendation
(i)	A sum totalling Rs.2,023,290,169 had been brought to account relating to 08 Revenue Codes without classifying the revenue received to the Shroff of the Head Office according to Revenue Codes in the monthly accounts statements under the correct Revenue Heads.	All daily receipts to bank accounts, have been recorded through EXCEL and the total amount received monthly to each Revenue Head has been shown in the monthly accounts summaries included in the CIGAS programme.	Daily and monthly classification summaries of the revenue received, should be prepared under correct Revenue Heads.
(ii)	The sum totalling Rs.6,124,850 relating to 11 unidentified deposits credited directly to the bank account relating to the 03 months of April, May and June of the year 2023, had been accounted without specifically identifying the person from whom it was received and whether it was specifically related to the relevant Revenue Head.	In case the parties that credited money to the bank do not present themselves by revealing their identity and when there is no other practical alternative to identify those depositors, the said deposits are credited to a Government Revenue Head considering as unidentified deposits.	Action should be taken to settle unidentified deposits periodically credited to the bank account.
(iii)	It had been instructed to remit the daily revenue collected to the Consolidated Fund according to 2023 budget proposals. However, a sum of Rs.1,864,060,436 including revenue from stickers in the year under review for the digital feature and paper base stickers for local liquor and the revenue from stickers for imported	A continuous petty cash sub imprest has been provided for daily expenses of regional offices. As the instant change in the system that existed for settling those expenses can cause inconvenience to the officers, the said system should have been changed gradually. Accordingly, daily revenue was duly	Daily revenue collected as per 2023 budget proposals and instructions of the Treasury, should be remitted to the Consolidated Fund.

liquor amounting to Rs.1,001,284,916 has been credited to the bank account in the year under review, had not been remitted to the General Treasury. Moreover, despite having been instructed in writing to remit all money to the General Treasury from 01 August 2023 under the ITMIS system, action had not been so taken.

- (iv) According to information on tax refund submitted by the Accounts Division relating to the export of un-denatured, potable and bottled liquor meant for sales mentioned in the Excise Notification, No. 10/2019 published in the Gazette Extraordinary Notification No. 2155/19 dated 27 December 2019, the following matters were observed relating to refund of an excise duty of Rs.7,301,770,528 in 32 instances in respect of 04 manufactories by the Excise Department from 01 January to 31 December 2023.

- As per provisions of the Department of State Accounts and the Department of Treasury Operations, the total tax payable to the Government by liquor manufacturers should be accounted as a revenue and the tax concession granted should be accounted as a refund

The refund of excise duty for the year 2023 amounting to Rs.7,301,370,528 has been indicated by a footnote in Form ACA—i(iii).

Action should be taken in terms of provisions of the Department of Treasury Operations and the Department of State Accounts and Financial Regulation 118 on refund of tax relating to

from the revenue in terms of Financial Regulation 118, it has been recommended that it is appropriate to make legal provisions so that the Commissioner General of Excise is authorized for refund from the revenue. However, it had not been implemented so far.

export of liquor.

- The net excise revenue has been accounted after deducting the relevant refunds from liquor manufacture tax. As such, the excise revenue has been understated by Rs.7,301,770,528.

Has been indicated by a footnote in Form ACA—i(iii).

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Furthermore, it was observed that no reporting and indicating of information of refunds from excise revenue on export of liquor is made in the Treasury accounts relating to the Excise Department as well.

- During a test check on files relating to refund of excise duty on export of liquor in the year under review, instances were observed where they have been exported to other countries instead of the country mentioned in 03 permits, an instance in 02 permits where they were exported on a date after the date specified and where the due period was not mentioned, where office copies of 20 permits have not been

As per the request of the foreign buyer, the relevant load of liquor was shipped according to the relevant export permits.

A proper internal control system related to export refunds should be established.

signed by a responsible officer and where the accuracy of export documents were not confirmed by the Customs Data System.

- It was mentioned that a joint inspection of documents was carried out with the participation of Excise and Customs Officers for confirmation of containerization of the liquor stock proposed to be exported. Nevertheless, only the Excise Officers had certified in the said documents that the liquor stocks have been properly containerized, and it was observed that the Customs Officers do not sign and certify them.

It has been stated that the Sri Lanka Customs is not liable to sign in a document issued by another institution.

There should be a methodology to confirm through documentary evidence that the joint monitoring and supervision is carried out relating to exports by the Excise Department and Customs Department.

2. Financial Review

2.1 Management of Revenue

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) As per 2023 budget estimates, the total estimate for excise and tobacco tax revenue has been revised by deducting a sum of Rs.35,035,000,000 representing 16 per cent, from Rs.217,035,000,000 to Rs.182,000,000,000.	The revisions of Rs.181 billion for liquor and Rs.1 billion for tobacco tax for the year 2023 as well have been included in the Action Plan.	Action should be taken to fulfill expected targets of revenue estimates under appropriate monitoring and supervision.

- (b) As compared with the total revised excise and tobacco tax revenue estimate of Rs.182,000,000,000 during the year, it was observed that a tax revenue of Rs.171,273,655,832 has been collected. Even though it was 94 per cent as a percentage, it was 78 per cent as compared with the original budget estimate for the year under review.
- Even though the observation is accurate, the excise revenue for the year 2023 amounts to Rs.171,273,655,832 and the tax refund on excise duty in the year 2023 is Rs.7,301,770,528. Accordingly, the total excise revenue is Rs.178,575,426,360. As such, the percentage of collecting revenue stands at 98.1%.
- (c) According to information of the Excise Department, as compared with the preceding year, a decrease of absolute liquor was observed in the year under review by 8,396,933 litres representing 19 per cent in the manufacture of 7 types out of 10 types of liquor. Moreover, even though liquor manufacture has decreased, the increase in the rate on excise duty by 20 per cent, by 02 Excise Notifications in 02 instances had effected the increase in the excise revenue.
- A decrease in liquor manufacture is also observed as a result of decrease in the demand for liquor due to increase in price owing to liquor tax and the decrease in purchasing power owing to inflation.
- Relevant raids should be carried out to prevent counterfeit liquor entering the market due to decrease in liquor manufacture.

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(d) Arrears of Excise Revenue

According to the report on arrears of revenue made available to Audit as at 31 December 2023, arrears of excise revenue and the penalties for delay totalling Rs.7,265,274,012 comprised a sum of Rs.7,159,178,778 from 13 liquor manufactories, a sum of Rs.6,218,940 from 13 toddy manufactories, a sum of Rs.31,483,610 from 03 distilleries and arrears of tax of Rs.68,392,684 for wastages from 04 liquor manufactories. Action had not been taken to recover arrears of revenue in terms of Financial Regulations 128(1)(g), 128(2)(e) and the Excise Ordinance No.8 of 1912 relating to the said permits, and amendments made thereto and provisions in Excise Notifications.

A sum of Rs.8,676,985 from one distillery, a sum of Rs.4,514,250 from 03 toddy manufactories and arrears from 09 palmyrah toddy manufactories have been recovered. Moreover, a sum of Rs.706,302,955 has been recovered in the year 2024 relating to present arrears in tax.

Action should be taken to recover arrears of revenue in terms of the Excise Ordinance.

Observations appear below.

(i) In the comparison of reports on arrears of revenue in the year under review with 04 preceding years, a gradual increase in the total recoverable arrears of excise revenue was observed.

In case of failure in the payment of excise duty on -do- the due date, penalties for delay of 36%, is added annually. It is kindly notified that an increase in the arrears of revenue is indicated from the year 2019 due to such increase in penalties for delay annually.

(ii) The sum totalling Rs.2,537,023,748 comprised arrears of excise revenue amounting to Rs.409,254,141 recoverable from 04 institutions for over a period of 05 years as at the end of the year under review and the penalties for delay thereon amounted to Rs.2,127,769,607. This arrears of tax comprised arrears of tax amounting to Rs.2,537,023,747 exceeding 15 years. Three of those institutions are inoperative at present. A court case is being heard relating to arrears of tax recoverable from one of those institutions. An agreement had been entered into on 30.11.2011 under the instructions of the Attorney General's Department for payment of arrears of excise duty and surcharge recoverable from the other two institutions. However, according to this company agreement, arrears of excise duty and surcharge have been defaulted from 25.04.2014. As such, issuing licences to these two companies has been suspended. Moreover, a lawsuit has been instituted in courts relating to arrears of tax and surcharges recoverable from the other institution.

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(iii) Moreover, the sum totalling Rs.3,214,391,948 comprised arrears of excise revenue of Rs.1,292,877,138 and penalties for delay thereon amounting to Rs.1,921,514,810 remaining recoverable from another institution since the year 2019. A lawsuit has been instituted in court by this institution in regard to arrears of tax and surcharges.

<p>(iv) Arrears of revenue totalling Rs.1,404,820,502 comprised excise duty and penalties for delay as at the end of the year under review from 08 liquor manufactories including one institution mentioned in 2.1 (d) ii above, the institution mentioned in iii and 06 institutions.</p>	<p>Present Arrears of Excise Revenue One institution and 02 institutions have entered into consent agreements for recovery of arrears of tax and surcharges on 29.02.2024 and 28.02.2024 respectively. A sum of Rs.306,093,064 has been recovered from surcharges included in the said tax by now. Moreover, 05 institutions have finalized payments of arrears of tax and surcharges of Rs.400,209,891 in the year 2024.</p>	<p>Action should be taken as per legal provisions.</p> <p style="text-align: center;">-do-</p>
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(e) Arrears of Tobacco Tax

<p>(i) Arrears of tobacco tax revenue amounting to Rs.6,688,478 remained as at the end of the year under review from 02 institutions due to import of tobacco without obtaining registration certificates according to Tobacco Tax (General) Regulations, No.1 of 2009.</p>	<p>A sum of Rs.800,000 has been paid by one institution in the year 2024 and as the owner of the other institution has left the country, recovery of the relevant tax has been referred to the legal division.</p>	<p>Action should be taken in terms of agreements and in terms of legal provisions relating to breach of agreements.</p>
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<p>(ii) Legal provisions have been made by the Notification and Circular No.1/2023 of 18 January 2023 under the Tobacco Tax Act relating to levying of the tobacco tax for beedi dated 31 December 2022 in terms of Sections 2 and 21 of the Tobacco Tax Act, No.08 of 1999 as amended by Tobacco Tax</p>	<p>Of the 387 manufacturers mentioned as not recovered any tax whatsoever for manufacture of beedi, tax is not applicable for 44 cigar manufacturers and 27 tobacco importers. No tax revenue has been received from 212 manufacturers of whom the registration has been renewed. Action is being taken in regard to the</p>	<p>Action should be taken in terms of provisions in the Notification under the Tobacco Tax Act.</p>
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(Amendment) Act, No. 09 remaining institutions.
of 2004 for regulation,
recovery of tax,
supervision and control of
tobacco and industries
relating
thereto. Of the 316
institutions engaged in the
beedi industry, 212
institutions had not
renewed the registration
and no follow up action
had been taken thereon.

No tax whatsoever had
been recovered from the
104 registered institutions.
Manufacturers had not
been classified as small
scale, medium scale or
large scale in the recovery
of tax.

(f) Arrears of Excise Duty for
Wastages

Deficiencies such as failure in reporting financial information monthly and quarterly on wastages from manufactures recoverable relating to each manufactory and distillery from regional offices to the Revenue Division and the Accounts Division, non-recovery of arrears of revenue over a long period, non-maintenance of full details, registers of revenue and registers of arrears in revenue relating to each institution in addition to details in files relating thereto, failure in reporting details on arrears of revenue on wastages of all institutions recoverable in	Tax relating to reported wastages, has been included in the report on arrears of tax as at 31.12.2023. According to Excise Notification No.991 of 09.12.2016, the recovery of tax on wastages, is the responsibility of the Officer-in-charge of Excise of the relevant Unit and the Superintendent of Excise and the Assistant Commissioner of Excise.	Arrears of revenue on wastages should be reported monthly and quarterly from regional offices.
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reports on arrears of revenue as per F.R. 128(2) (c), were observed.

2.2 Management of Expenditure

Audit Observation	Comment of the Accounting Officer	Recommendation
Capital Expenditure		
Even though provision of Rs.438,000,000 has been made for 07 Capital Objects, only a sum totalling Rs.166,569,268 thereof had been utilized. The saving of those Objects was Rs. 271,430,732.	Due to the problematic situation arisen in selecting suitable clients for the RASED Project through the procurement process, certain planned procurement activities had to be cancelled while some other procurement activities had to be delayed, thus resulting in saving of provision.	Action should be taken to implement essential projects such as establishment of the Revenue Administration System for the Excise Department.

2.3 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with provisions in Laws, Rules and Regulations observed during audit test checks, are analyzed below.

Reference to Laws, Rules and Regulations	Observation Value Rs.	Non-compliance	Comment of the Accounting Officer	Recommendation
(i) Declaration of Assets and Liabilities Law No.1 of 1975 as amended by Act, No.74 of 1988 and Circular No. 04/1994 of 18 February 1994 of the Ministry of Justice		Action should be taken to obtain annual declarations of assets and liabilities from Staff Officers of the Excise Department. It was observed that the relevant declarations have not been submitted by 120 officers as at 31 December 2023 in terms of	The relevant declarations have not been submitted by 120 officers as at 31 December 2023 in terms of the circular.	Action should be taken in terms of relevant legal provisions.

(ii) Excise Notification No.10/2019 of 27 December 2019	7,301,770,528	<p>the circular.</p> <p>It was mentioned that a surety acceptable by the Commissioner General of Excise or a bank guarantee should be submitted for export of liquor on payment of an excise duty or on non-tax basis. However, no proper coverage of guarantee for refund of excise duty amounting to Rs.7,301,770,528 relating to 16,364,975 litres of exported liquor had been submitted in 06 instances by 03 manufactories of hard liquor and in 26 instances by one malt liquor manufactory.</p>	<p>Action has been taken to issue a circular on guarantee coverage.</p>	<p>Action should be taken as per provisions in Excise Notifications.</p>
(iii) Excise Notification No.902 of Gazette Extraordinary Notification No.1544/17 dated 10 April 2008, Excise Notification No.983 of Gazette Extraordinary Notification No.1945/17 dated 15 December 2015, Excise Notification No.1004 of Gazette Notification No.2049/4 dated 11 December 2017,		<p>During the audit test check relating to permits renewed for the year 2023, no police reports have been submitted in the renewal of Foreign Liquor Permits 4, F.L.Permit 7 and F.L.Permit 22 A and B, evidence etc. on approval of the Tourist Board and evidence issued by the Inland Revenue</p>	<p>According to letter No.ED/04/Miscellaneous of 13.12.2023 of the Additional Commissioner of Excise, liquor licences have been renewed subject to obtaining revenue tax clearance and approval of the Tourist Board on a later date due to a technical issue</p>	-do-

<p>Excise Notification No. 3/2018 of Gazette Extraordinary Notification No. 2054/41 dated 18 January 2018 and Revenue Licence General (vi) Circular No.R.C./LB/04 of 04 October 2022 of the Commissioner General of Excise.</p>	<p>Department on arisen at the end of the year 2023 payment of tax, has not been available relating to tax in the file. As such, clearance certificates and it was observed that the said the delay in requirement obtaining approval of the relating to licence Tourist Board fees has not been due to fulfilled. congestion.</p>
<p>(iv) Excise Notification No.844 of 18 April 2002 as amended by Excise Notification No.991 of 09 December 2016</p>	<p>68,392,384</p> <p>As per the Excise Investigations are conducted -do- Notification, it was mentioned that relating to where the tax recovery of concession is arrears in tax exceeded, tax recoverable for should be paid to waste from one the Government institution and 04 according to other institutions prevailing tax rates. have been Moreover, tax has notified by not been recovered letters. in the year under review for wastages of Rs.68,392,384 from 04 liquor manufactories.</p>
<p>(v) Establishments Code of the Democratic Socialist Republic of Sri Lanka</p> <p>Chapter XXIV, provisions of Budget Circular No.118 of 11 October 2004 and paragraph 03(e) of Public Finance Circular</p>	<p>1,214,537</p> <p>(i)The outstanding loan balances recoverable from 10 officers deceased as at the end of the year under review was Rs.1,214,537.</p> <p>Action has been taken presently to recover death gratuity amounting to Rs.477,610 from 5 officers.</p> <p>Action should be taken in terms of provisions in the Establishments Code.</p>

1,845,808	(ii) The amount recoverable from 14 officers who had left the service as at the end of the year under review totalled Rs.1,845,808.	A sum of Rs.1,220,561 is recoverable from 13 officers by now.	-do-
1,575,426	The loan balance recoverable as at the end of the year under review from 13 officers who were interdicted was Rs. 1,575,426.	The total sum to be recovered by at present is Rs.1,468,342.	-do-

2.4 Operation of Bank Accounts

Audi Observation	Comment of the Accounting Officer	Recommendation
In terms of Financial Regulation 395(c), it is mentioned that the monthly bank reconciliation statement relating to bank accounts should be prepared before the 15 th of the following month and made available to Audit for inspection. However, it was observed that bank reconciliation statements have not been prepared since the year 2022 for the bank current account opened by the Excise Department on 17 December 2021 in favour of the Commissioner General of Excise in the Bank of Ceylon Taprobane Branch. Identification of bank charges, dishonoured cheques and errors made by the bank revealed by a bank reconciliation statement	This bank account is an account maintained for direct collection of money in favour of depositors. Revenue collected daily to this account is remitted to two other bank accounts of the Excise Department.	Action should be taken in terms of Financial Regulations.

and confirmation whether they have been accurately brought to account could not be obtained due to non-preparation of a bank reconciliation statement.

3. Operating Review

3.1 Delays in the Execution of Projects

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A laboratory has been planned to be established in the year 2021 for laboratory testing for liquor and for testing the standard of liquor so as to enable expediting release of standard liquor to the market and lawsuits relating to illicit liquor and even though Rs.100 million has been allocated for purchase of equipment for the laboratory by the budget of the year under review, the expenditure incurred in the year under review was Rs.1,480,133 representing 1.4 per cent which was a very low percentage. As such, no adequate progress was observed in the year under review relating to the establishment of the laboratory.	Arrangements have been made to award tenders for purchase of laboratory equipment and furniture by May 2024.	Action should be taken to establish a laboratory for testing the standard of liquor.
(b) Even though standards had been established under 16 criteria for 11 types of liquor under introducing proper standards for liquor, no Gazette Notifications had been issued on standards so as to effect provisions for manufacture according to standards up to 31 December 2023. Furthermore, activities relating to establishment standards for fermented toddy had not been finalized so far.	The draft prepared for standards has been sent for approval to the Director General of the Department of Fiscal Policies on 27.03.2024.	The Gazette Notification should be issued so as to effect provisions as per standards.
(c) Activities of implementing a computerized information system with new reforms named RASED for achieving objectives such as efficient revenue administration, delivery of high standard service to clients,	Necessary procurement activities are being carried out for selecting a procurement expert under the open	Action should be taken to expedite establishment of the proposed revenue administration system

regularization of data exchange with Government institutions and implementing a proper supply chain for human resource management etc. had been commenced in December 2020. Even though provision of Rs.100 million and Rs.94 million had been made in the years 2022 and 2023 respectively for software development under this project, no expenditure whatsoever had been incurred.

It was observed that activities of information communication, functioning as an integrated information system linked with the information system of Sri Lanka Customs, Inland Revenue Department and the Ministry of Finance is being further delayed due to the delay in the establishment of this computerized data system proposed for important fields such as the process of issuing permits of the Excise Department, supervision and distribution of manufactories and monitoring of supply chains, crime data and legal management, excise duty and tax administration.

(d) **Sticker Management Project**

According to Excise Notification 7/2021, it was observed at the audit test checks that the order that every bottle or can should be printed with the approved digital code before reaching the customer, had not been implemented continuously.

(i) According to examination records of officers of the Excise Department relating to a manufactory of a major company manufacturing hard liquor, it had been reported that 3,601,735 of 180 milliliter bottles had not been printed with digital features during the period from 13 January 2022 on which the printing machine was installed, up to 31 December 2022 due to non-function of the machine and 66,335 of 180 milliliter bottles had not been printed during the period from January up to 14 February 2023.

procurement method for the development of the system as per instructions of the Ministry of Finance.

and to achieve intended objectives.

As digital features are automatically printed, a system of digital printing on bottles by separately identifying the unprinted bottles engaging persons separately for examining on-printing of digital features, has been implemented by now.

Action should be taken in terms of the Excise Notification.

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- (ii) A number of 1,335,591 beer bottles and 3,362,568 beer cans on which the digital feature was not printed in 54 instances during the period from 12 January up to 19 September 2023 of a leading company manufacturing malt liquor, had been identified. Instances were observed in which the Excise Department has granted written approval to issue and export the said bottles and cans to identified areas.
- Identifying and printing digital features are carried out again on bottles/cans on which digital feature was not printed by engaging persons separately. Moreover, the contractor has agreed to print the said digital feature to be seen with the naked eye. Excise Officers have been provided with UV lights for inspecting digital features.
- (iii) A system to identifying and rejecting non-printing of the digital code had not been established so far.
- Reports on partial printing and non-printing cannot be obtained through the module. Relevant information is maintained in the files of the manufactory.
- A system should be established for identifying and rejecting non-printing of the digital code.
- (iv) An APP has been introduced in the sticker management system for the general public to identify liquor as counterfeit liquor or as a genuine bottle of liquor. Deficiencies such as arise in issues in the APP, failure in obtaining a full description on operations as and when required due to non-development of the reporting module (MIS) of the Security Features Management System (SFMS), failure in providing necessary facilities through the software for comparing the contractor with the physical stock verification of the Excise Department or the manufacturers, non-provision of facilities for obtaining a report through the module on partial printing monthly and non-printing, frequent arise in technical issues through the
- The agreement had been signed without considering the deficiencies in the digital feature method. Money payable in the year 2022 had been suspended due to the defects in the digital sticker method and additional provision has to be obtained for that year as payments were made from the provision allocated for the year 2023.
- The sticker management project should be reviewed and the issues existing therein corrected.

MIS module for verification of the quantity of digital stickers printed per day with necessary breakdowns, should have been corrected.

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| <p>(v) An increase in the cost for printed stickers and digital codes was observed due to the increase in exchange rate, payment of bank commission and service charges. As Rs.2 is charged per sticker from liquor manufacturing companies for local printed stickers and digital stickers, attention had not been focused towards covering the financial loss based on the increase of the above cost.</p> | <p>As the amount to be paid to the institution exceeds Rs.2 due to the rapid increase in the Dollar, the Department of Fiscal Policy has been notified to revise the price of the sticker.</p> | <p>The sticker management project should be reviewed and implemented so as not to be charged on the Government.</p> |
| <p>(vi) Three manufactories had taken the responsibility on behalf of 78 licensed premises that had affixed fake stickers on bottles distributed for sale, as per Section 25 of Excise Notification No.7/2021 and provisions cited in Sections 27, 47 and 56 of the Excise Ordinance and subsequently been arbitrated in September 2023. Even though it had been reported that a sum of Rs.40.5 million per Rs.500,000 as maximum composition fees and a sum of Rs.17.938 million as excise tax and delay charges of 3 per cent had been recovered from the 3 manufactories subjected to investigation and further measures were being taken after confiscating 55,940 liquor bottles of 180 ml. However, the reports on relevant investigations had not been made available to Audit.</p> | <p>Further investigations are being conducted.</p> | <p>Action should be taken in terms of the Excise Ordinance.</p> |
| <p>(vii) Continuous Non-implementation of the Digital Code according to the committee report submitted on 16 October 2023 by the joint committee of the Ministry of Finance and the Excise Department Matters such as entering of products</p> | <p>All places related to the manufacturing process are inspected by the Excise Officers. Attention is being drawn towards introducing</p> | <p>Implementing recommendations of the report of the committee appointed by the Secretary to the Ministry of Finance</p> |

which does not contain the digital codes to the market due to non-adaptation of the speed of digital coding machines to the speed of the production process, non-development of modules for obtaining all reports, absence of a methodology in the system to identify non-printing digitally and partial printing while being printed, printing the digital code to be seen with the naked eye, further development of the entire computer system for constant supervision of the system, had been identified.

methodologies to subject to direct inspection of another party and to enable transparency in instant audits.

Effecting provisions in Sections 33,34,35 and 48 of the Excise Ordinance, liquor shops and manufactories are already raided frequently and the inspection of liquor bottles with fake stickers have been reinforced by issuing an Excise circular specifically for further inspection of fake stickers.

Practical issues arise in using digital feature method for all local manufacturers.

However, the possibility of using paper base for all local liquor manufacturers is being studied.

Of the recommendations made by the said committee, no significant progress was reported in the following recommendations.

- That it is appropriate to reanalyze the price range for the digital feature and the printed stickers
- That either Section 56 of the Excise Ordinance should be repealed or arbitration fees should be increased
- In terms of Section 15 of the Excise Notification No.7/2021, the format of safety stickers, determine the methods of authentication of overt, covert and forensic features of safety features and making the public and liquor shop owners aware in that regard
- Revision of the price of Rs.2 recoverable from the manufacturer for a safety sticker to adjust to present conditions
- That it is appropriate to use the digital feature for all products of country liquor by a proper study and cost analysis

3.2 Procurements

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>In the purchase of photocopier machines for which approval has been granted by the Department Procurement Committee on 27 December 2022, the selected bidder had agreed to supply photocopier machines with trays when supplying 11 machines. However, as machines with trays have been supplied on 31 December 2022, in the supply of goods not complied with specifications by the bidder, a cheque had been written as at 31 December 2022 without taking over goods accurately in accordance with specifications. Moreover, a supply contract agreement had not been entered into in terms of Guideline 8.9.1 (b) and in taking over of photocopier machines in terms of Guideline 8.12.3 of the Government Procurement Guidelines.</p>	<p>Even though there should be 02 trays for inserting papers into the photocopier machine, machines have been supplied with one tray by the supplier. As such, the supplier has been informed to supply the 02 trays requested by the Department and all payments have been made after verifying the supply. The officers have been notified not to repeat the deficiency pointed out, in future procurements.</p>	<p>Action should be taken in terms of provisions in the Government Procurement Guidelines.</p>

3.3 Losses and Damages

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>Despite having been equipped with security services and security camera systems, the accessories of the generator which was installed in the building of the Excise Department has been misplaced on 04 September 2023. As such, a loss of Rs.4,130,300 had been reported in the financial statements. Preliminary investigation reports had not been made available to Audit in</p>	<p>Police investigations are in progress relating to misplacement, theft of the generator. Moreover, a preliminary investigation has been carried out in terms of Financial Regulation 104(03) and it is kindly informed that the final investigation will be carried out and reported to Audit in future.</p>	<p>Action should be taken in terms of provisions in the Financial Regulations.</p>

terms of Financial Regulation 104(03) in this regard. The progress of measures taken relating to this incident had not been reported to Audit as well.

3.4 Management Weaknesses

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>According to the Action Plan of the year 2023, it had been planned to implement 37,000 crime raid targets at 9,250 crime raid targets per quarter and 39,436 raids had been carried out. Observations on the crime raids in the year under review are as follows.</p>	<p>Agreed with the data indicated in audit observations relating to the period of review.</p>	<p>Attention should be drawn towards the requirement of maintaining the number of technical crimes and crime raids close to 50,000 limit.</p>
<p>(i) A number of raids totaling Rs.41,000 comprising 37,000 crime raid targets and 4,000 technical crime raids have been planned for the year under review and a total of 44,935 raids comprising 39,436 crime raids and 5,499 technical crime raids have been carried out for the year 2023.</p> <p>The Ministry of Finance has emphasized the requirement of maintaining the number of technical crimes and crime raids close to 50,000 limit, used as indicators in implementing law which is the utmost duty of the Excise Department.</p>		

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- (ii) In the examination of progress on reaching of crime raid targets, raids have been carried out exceeding the targets set for the year 2023. However, it was observed that the set targets had not been reached relating to 25 liquor premises and it was further observed that of those liquor premises, targets had not been reached by a percentage less than 75 per cent, a percentage less than 90 per cent and a percentage between 90 per cent and 100 per cent relating to 02, 06 and 17 liquor premises respectively.
- Letters on questioning and advice have been forwarded for liquor premises which had not reached the revised targets.

4. Good Governance

4.1 Rendering of Services to the Public

Audit Observation	Comment of the Accounting Officer	Recommendation
A number of 899 complaints had been received from the public to the Excise Operations Centre on Speed Dial 1913 of the Excise Head office and 317, 554 and 28 of them had been referred to the Special Operations Unit, regional offices and the Narcotic Unit respectively, and of them, the number of successful raids carried out as at 31 December 2023 was 356 representing 39 per cent.	A number of 365 raids representing 41 per cent have been carried out as at 31 March 2024.	Prompt action as well as follow up action should be taken relating to complaints received to the Operations Centre.

5. Human Resource Management

Audit Observation	Comment of the Accounting Officer	Recommendation
A number of 38 vacancies relating to Senior Level existed in the Department as at 31 December 2023 and officers had been appointed for acting and covering of duties for vacancies in posts relating to Senior Level.	A post each in Additional Commissioner General of Excise, Chief Financial Officer, 02 post in Commissioner of Excise, 08 posts in Deputy Commissioner of Excise, 08 posts in Assistant Commissioner of Excise, 18 posts in Superintendent of Excise relating to Senior Level had been vacant. However, the post of Chief Financial Officer has been backdated as at 31.12.2022 and given the appointment on 01.02.2024.	Action should be taken to fill vacancies in essential posts and to suppress unnecessary posts.