**Head 248 – Department of Excise - 2024**

## 1. Financial Statements

### 1.1 Qualified Opinion

Head 248 - The audit of the financial statements of the Department of Excise for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 Department of Excise was issued to the Accounting Officer on 19 May 2025 in terms of Section 11(1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report related to the Department was issued to the Accounting Officer on 28 May 2025 in terms of Section 11(2) of the Audit Act. This Report will be presented to the Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements of the Department of Excise for the year ended 31 December 2024 give a true and fair view of the financial position, financial performance and cash flows, all materialities consistent with the basis for preparing financial statements mentioned in note (1) related to the financial statements.

### 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 (SLAuSs). My responsibility for the financial statements is further described in the Auditor’s Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### 1.3 Emphasis of the Matter – Basis of preparing Financial Statements

The attention is drawn to the Note 1 related to the financial statement which describe the basis of preparing this financial statements. The financial statements have been prepared as per the Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 amended on 21 February 2025 for the requirement of the Department of Excise, General Treasury and the Parliament. Consequently, these financial statement may not be suitable for other objectives. My report is only for the use of the Department of Excise, General Treasury and the Parliament. My opinion on this matter is not modified.

## 1.4 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is responsible for preparation of financial statements that give a true and fair view on all the materialities in accordance with the Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 amended on 21 February 2025 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the preparation of annual and periodic financial statements.

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

## 1.5 Auditor's Responsibility for the 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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and implemented 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 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 of Excise.

- Evaluated 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.

- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## 1.6 Comments on Financial Statements

### 1.6.1. Deduction of Excise duty on liquor exports

The following deficiencies were observed during the audit of the accounting of excise duty on liquor exports related to the Department of Excise.

| | Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|---|
| (i) | The Department of Excise had been accounted for only the net excise revenue for the year 2024, by deducting the tax deduction value on the export of locally produced liquor by the manufacturing plants from the relevant excise duties. Accordingly, the Excise Department had been under-accounted the tax revenue on liquor in the year under review by Rs. 12,194,197,179. | At the meeting of the Audit and Management Committee of the Ministry of Finance, Economic stabilization and National Policies, it was decided to follow the existing methodology and disclose the tax relief value through a note in the income accounts in the financial statements due to the difficulties in repaying from revenue or paying from an expenditure head. | Revenue accounts should be maintained in accordance with the instructions of the Public Accounts Department and the Treasury Operations Department. |
| (ii) | Due to the failure to provide the Excise Department with a suitable Expenditure Vote account and necessary provisions to account for the refund of tax on exported liquor and the failure to provide the necessary approval to account for the relevant excise duty refund amount through that Expenditure Vote account, the total expenditure of the Excise Department for the year under review had been under-accounted by about Rs. 12,194,197,179. | This situation has arisen due to the inability to perform within the financial controls of the Sri Lanka Excise Department. so, agree with the audit observations. | Expenditure accounts should be maintained in accordance with the instructions of the Public Accounts Department and the Treasury Operations Department. |

### 1.6.2 Capital Expenditures

The following deficiencies were observed during the examination of the accounting for capital expenditures related to the financial statements.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| The Kurunegala District Secretariat had been incurred Rs. 2,010,657 for the renovation of the building of the | Instructions and guidance were given to remove the relevant value from the Excise Reward | Accounting should be done on the correct Expenditure vote |

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| Panadaragama Excise Training College, which is an asset of the Excise Reward Fund, and it had been accounted for under the 2001 Building and Construction Expenditure of the Department of Excise. | Fund in the year 2025 and credit it to government revenue. | Account. |

### 1.6.3 Deposit Payments

The deficiencies which were observed, while the examination of deposit payments and balance accounting related to the financial statements.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| Although, the deposit balances of Rs. 5,489,345, comprising Rs. 5,285,845 deposited for recovery of confound fees for industrial crime reports and Rs. 203,500 deposited for other deposits, had been settled by 31st December 2024, still those balances had been shown under the security deposit account number 6000-0-0-0-1-0-122-0. | The responsible officer was given relevant instructions and guidance to remove and correct the deposit balances for the recovery of confound fees for settled industrial crime reports and deposit balances for other deposits from the deposit account. | Steps should be taken to remove the deposit balances that have been settled by 31 December 2024, from the deposit accounts. |

### 1.6.4 Property, Plant and Equipment

The following deficiencies were observed during the examination of the accounting for property, plant and equipment.

| | Audit Observation | Comment of the Accounting Officer | Recommendation |
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| (i) | The value of land in the financial statements as of 31 December 2024 had been overstated by Rs. 282,680,000. | Instructions and guidance were given to the relevant subject officer to obtain valuation reports and correct the land value in future. | Correct valuations of assets should be obtained and accounting should be done as per the valuations. |
| (ii) | The value of the buildings had been overstated by Rs. 259,470,329 in the financial statements as of 31 December 2024. | Agreed with the audit observations. | Correct valuations of assets should be obtained and accounting should be done as per the valuations. |

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| (iii) | The 25 "Hydrometers" worth Rs. 6,767,300 purchased under the Excise Gift Fund in the year 2024 had been accounted for under Laboratory Equipment in the Machinery and Equipment category of the Department of Excise. | Notes were kept for correction during the preparation of the financial statements for the year 2025 and submission. | Action should be taken to remove assets purchased under the Excise Reward Fund from the assets of the Department of Excise. |
| (iv) | The value of capital work in progress (WIP) had been overstated by Rs. 190,803,318 in the financial statements as of 31 December 2024. | Notes were kept for correction during the preparation of the financial statements for the year 2025 and submission. | Actions should be made to accurately identify and account for the assets that actually exist. |
| (v) | The value of finance lease assets had been overstated by Rs. 153,111,371 in the financial statements as of 31 December 2024. | The value of the finance lease assets in the financial statements 2024 had been shown as Rs. 129,527,358 for the cost of 19 cabs, Rs. 106,283,921 for the lease interest paid for the 19 cabs and Rs. 2,358,280 for the stamp duty paid for the 19 cabs and totaling Rs. 238,169,560. | The lease interest and stamp duty paid for the property should be deducted from the value of the property and only the actual cost should be recorded under the property plant and equipment. |
| (vi) | The cost of non-activated safety sign stickers as of 31 December 2024 amounting to Rs. 36,120,593 had not been accounted. | No answers were given. | All the assets should be accounted. |

## 2. Report on other legal requirements

I hereby declare the followings in accordance with Section 6(1)(d) of the National Audit Act, No. 19 of 2018:

(a) That the financial statements are consistent with the previous year,

(b) My recommendations on the financial statements for the previous year, 1.6.1. (a) iv, 1.6.1. (d) iv and 2.1. (d) ii, had not been implemented.

## 3. Financial Review

### 3.1 Accrued Revenues

The following deficiencies were observed during the audit conducted regarding accruals.

| | Audit Observation | Comments of the Accounting Officer | Recommendation |
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| (a) | The Excise Department's financial statements as of December 31, 2024, had been understated the outstanding revenue by Rs. 24,442,751. | This difference is due to the fact that the amount of Rs. 24,442,751 for waste of one liquor manufacturing company was not recorded in the financial statements. | All relevant information should be included accurately in the financial statements. |
| (b) | As of end of the year, a total of Rs. 6,337,596,701, consisting of Rs. 1,702,131,279 in arrears of excise revenue and Rs. 4,635,465,422 in late fees, should have to be collected from 05 institutions for more than 05 years. | • Action is being taken to refer to the attorney general for legal action recover the amount of Rs.1,171,003,827 due from Globe Blenders.<br>• Action is being taken to refer to the attorney general for legal action recover the amount of Rs.289,408,594 due from Wayamba Spirits Warehouse.<br>• The Legal Division has confirmed that a case bearing No. CA (Writ) 649/2023 has been filed in court to recover the amount of Rs. 577,391,758 due from Wayamba Distilleries. Further action will be taken based on the decision of that case.<br>• The case number SP/SPL/LA/29/2020 is pending in court to recover the amount of Rs.619,964,802 due from McCallum Brewery. Further action will be taken based on the decision of that case.<br>• The Attorney General's Department has been informed to initiate legal proceedings to recover the amount of Rs.3,679,827,717 due from W.M. Mendis and Company. | Steps should be taken to recover arrears of revenue promptly. |

## 4. Operational Review

### 4.1 Delays in Project Implementation

The following deficiencies were observed during the inspection conducted regarding the establishment of the proposed Revenue Administration System (RASED).

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| Although the Treasury had allocated a total of Rs. 1,041,800,000 for the period 2022 - 2024 for the development of the proposed Revenue Administration System (RASED) of the Excise Department, the Department had not been utilized any of those funds by the end of year 2024 to carry out the work related to the development of the said system. | No answers were given. | The allocations provided by the Treasury should be properly utilized to achieve the relevant objectives. |

### 4.2 Asset Management

The following matters were observed during the inspection conducted regarding asset management.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| The Department had not been taken steps to obtain legal ownership of 15 lands where regional offices are maintained up to the end of year under review. | Instructions and guidance were given to the relevant subject officer to obtain future valuation reports and correct the land value of the Sri Lanka Excise Department. | Steps should be taken to obtain legal ownership of the lands owned by the department. |

### 4.3 Losses and Damages

#### 4.3.1 Missing Parts of the Power Generator.

The following observations are made regarding the missing parts of the power generator installed at the Excise Department's head office premises.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| While the Department had engaged the services of a security service company, parts of the generator installed in the office premises on 04 September 2023 had been missed. Later, the generator had been repaired under a service agreement of Rs. 3,297,050, but the | The Investigation Committee appointed by the Ministry of Finance to conduct a formal investigation in accordance with Financial Regulation 104(1) has conducted the investigation and submitted a full investigation | Steps should be taken to establish and maintain sound internal control systems for the protection of assets. |

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| generator had not been made to the operational level as of the date of the audit report. No formal investigation had been conducted into the incident and steps had been taken to recover the loss from the responsible parties. | report on 2025-04-10. on that, the General 284, General 285 application has been completed and submitted to the Chief Accounting Officer. | |

### 4.3.2 Destruction of safety sign stickers due to fire at liquor factory.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| A fire broke out on 26 May 2024 in a liquor factory in Dankotuwa and destroyed a stock of security stickers to be affixed to liquor bottles. The following observations are being made in this regard.<br>• According to the Government Analysis Report dated 12 August 2024, it had been confirmed that this was a deliberate fire.<br>• Although the number of security labels that should have been present at the time of the fire according to the security label management system was 8,179,194, only 1,396,988 security labels were in the custody of the excise officers and all of them had been burnt.<br>• It had been observed that the provision of a stock of 8,179,194 security labels was an unusual situation considering the production capacity of the relevant factory.<br>• The use of misplaced security labels had been resulted in the loss of tax revenue of Rs. 4,117,520,819 that could have to be earned. | The Commissioner General of Excise of Sri Lanka Excise Department has informed the Criminal Investigation Department to investigate and recover the losses through a letter dated 27 December 2024, ED/05/02/General-1.<br>The Supply Chain Regulation Division is taking steps to calculate and recover the maximum tax amount due to the government in relation to the stock of security labels issued for each quantity of liquor products.<br>The Supply Chain Regulation Division has prepared a security sticker management system to issue the stocks requested only on approvals of the relevant Excise Officer, Excise Superintendent and Assistant Excise Commissioner of the relevant manufacturing plant in order to carry out stock-related control in the process of issuing security stickers to manufacturing plants.<br>Instructions and guidelines have been given to regularly conduct sample inspections of the CCTV systems, fire safety systems and employee welfare facilities currently available in manufacturing plants. | A formal investigation should be conducted into the above observations, those responsible should be identified, and legal and disciplinary action should be taken. |

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| • The CCTV camera system was out of order at the time of the fire and the fire had not been controlled by the certified fire protection system.<br><br>• The department had been failed to conduct a formal investigation into the above observations, identify those responsible, take legal and disciplinary action and recover the lost tax revenue. | | |

### 4.3.3 Seizure of counterfeit liquor bottles and spirits.

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| The following observations are made regarding the report submitted by the investigation committee regarding the seizure of 5,000 liters of ethanol spirit and 8,446 bottles of liquor hidden in 3 lorries belonging to a liquor factory operating in the Dankotuwa area and being kept in a private premises.<br>• Two forged documents had been prepared using two Excise Department file numbers as licenses issued by the Excise Department to purchase ethanol and fraudulently obtained 10,000 liters of ethanol, 5,000 liters each, from the Pelawatte Sugar Company distillery on two occasions.<br><br>• the 15,000 liters of ethanol which were included the 10,000 liters of ethanol purchased using the forged documents and the 5,000 liters of ethanol purchased through a license issued by the Excise Department, had not been brought to the liquor factory.<br><br>• 8,446 bottles of liquor seized from a private premises hidden | In addition to the officers of the Excise Department, it is necessary to collect oral statements and evidence from the staff of the relevant distillery and liquor production plant and other third parties regarding the subject matter, and due to the need to act in accordance with the provisions of criminal law, the Attorney General's Department and the Criminal Investigation Department, which have the authority to do so, have been directed to act as follows.<br>(a) The subject matter has been referred to the Criminal Investigation Department by the Deputy Excise Commissioner (Enforcement) of the Sri Lanka Excise Department by the letter no. ED/05/02/Gen and non-dated.<br><br>(b) The Additional Excise Commissioner General of the Sri Lanka Excise Department vide letter no. ED/09/01/072025 dated 23 May 2025, referring the matter to the Attorney | Prompt legal action should be taken against those involved in the preparation and submission of fraudulent documents and the deliberate evasion of tax due. |

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| in a lorry had been identified as products not manufactured in the said factory and not included in the tax calculations.<br><br>• The 8,446 bottles of liquor that had been illegally manufactured had legal security stickers issued by the Excise Department been affixed.<br>• Excise revenue of Rs. 98,667,000 had been lost, in the case of 15,000 liters of ethanol that had not been taken to the factory and excise revenue of Rs. 4,171,991 had been lost, in the case of 8,446 bottles of liquor that had been illegally manufactured.<br><br>• The Department had been failed to conduct a formal investigation into the above observations, identify those responsible, take legal and disciplinary action and recover the lost tax revenue. | General's Department for judicial action. | |

### 4.4 Management inefficiencies

#### 4.4.1 Counterfeit Security stickers

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| During a special investigation had been conducted in the Northern and Eastern Provinces in January and February 2024, 54,887 liquor bottles suspected of having been affixed with fake safety stickers had been seized from 16 liquor outlets, of which 12,170 had been identified as liquor bottles with fake safety stickers. The following facts had been observed during the investigation conducted in this regard.<br>• Although the manufacturing plants mentioned on the labels of the liquor bottles containing the fake safety labels had been | The Law Enforcement Division is responsible for conducting a formal investigation into the printing of the relevant fake security labels and the manner in which they were received by the manufacturing company in connection with the arrival of liquor bottles with fake security labels in the market, and taking legal action against the institutions or individuals printing the relevant fake security stickers, as well as taking legal action against those manufacturing companies for defrauding the state and engaging in fraudulent activities. In the | A formal investigation should be conducted and legal action should be taken promptly. |

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| settled the matter by paying the relevant taxes and fines for the liquor, legal action had not been taken to investigate the manner in which these fake safety labels had been printed, the institutions, the individuals involved, and to prevent such an incident from happening again.<br><br>• Attention had not been paid to whether such liquor bottles with fake safety labels had been distributed to other provinces, whether such fake products were being produced again, and the necessary measures to be taken in this regard. | future, legal action will be taken against the relevant manufacturing establishments, and internal control systems have been formalized to prevent the printing of fake security stickers. | |

### 4.4.2 Central Laboratory

| Audit Observation | Comment of the Accounting Officer | Recommendation |
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| The Excise Department had planned to commence testing activities in the Central Laboratory, which had been constructed at a cost of Rs. 43,571,412, in January 2025, but due to the failure to accurately identify the human resource requirement and recruit suitable technical personnel within the prescribed time frame, testing activities had not been commenced. | This situation has arisen due to the suspension of recruitment for new services in accordance with the Expenditure Control Circular No. 01/2024, and steps will be taken to make new recruitments very soon. | Steps should be taken to recruit qualified staff urgently. |

### 4.5 Issuance of new excise licenses

| Audit Observation | Comment of the Accounting Officer | Recommendation |
|---|---|---|
| The following points were observed in the examination conducted by the Department regarding the issuance of Retail Liquor Licenses (R.B. 04) during the period from February 06, 2024 to September 24, 2024. | The Excise Department currently issues excise liquor licenses in Sri Lanka in accordance with the Excise Ordinance and Excise Notices 902, 02/2024 and 03/2024. No public notices are issued for the issuance of liquor licenses. | Actions should be made to establish a system that provides a fair opportunity to all interested parties when issuing excise licenses. |
| • The relevant excise licenses had been issued without inviting | The main reason for this is that the Department of Excise does | |

applications so that interested parties could have an opportunity to obtain excise licenses.

- Licenses had been issued to persons below the age of 21 years and to private companies in which persons below the age of 21 years were directors, in violation of Section 31 of the National Authority for Tobacco and Liquor Act, No. 27 of 2006.
- The letter with the approval of the Minister of Finance to issue the relevant excise licenses (R.B. 04) had ordered that the relevant excise license to be issued in the name of the relevant applicant by restricting transferred/sold.

- Despite receiving such an order from the Minister of Finance, the Department fo had not taken steps to include the order in the relevant excise license or in the conditions related thereto. As of the date of this report, 05 of those licenses had been assigned to other parties and the authority to act in respect of 02 more licenses had been granted to other parties through Powers of Attorney.

- Regarding the issuance of excise licenses (R.B. 04) for the retail sale of liquor during the 2024 Presidential Election period (from 26 June 2024 to 21 September 2024), the Election Commission, through its letters EDR/PE/2024/N-281 dated 13 August 2024 and 19 August 2024, had been informed that since the sale of licenses to various parties could lead to large-scale financial fraud and the promotion of various political groups, a formal procedure should be followed for

not have a specific location to establish a liquor outlet, and since public objections, schools, and places of worship are major factors in determining the location of a liquor outlet, tender procedures cannot be followed.
However, after receiving a request for an excise license, it is the normal procedure to issue an application by charging the fees specified in Excise Notice 902, 02/2024. The Excise Department has acted accordingly.

this and the licenses should be issued in a transparent manner. However, 88 excise licenses (R.B. 04) for the retail sale of liquor had been issued during the Presidential Election period without using such a formal process.

- After the presidential election, after the new President had been sworn without considering new government's programs and policies and the steps had been taken to issue 02 excise licenses (R.B. 04) for the retail sale of alcohol without obtaining other relevant approvals.