

Excise Rewards Fund of the Excise Department – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Excise Rewards Fund for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report. In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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

1.3 Responsibilities of Management and Those Charged with Governance for the financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the fund.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties, whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations Related to the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Accounting Standards

Although the financial statements for the year under review should have been prepared in accordance with Sri Lanka Public Accounting Standards, the following are the instances where such requirement was deviated from.

Audit Observation	Comments of the Management	Recommendation
(a) Although it had been stated in Note 2.1 of the financial statements prepared for the year 2024 of the Excise Gift Fund that the said financial statements are prepared in accordance with the Sri Lanka Public Sector Accounting Standards and in Note 7 of the financial statements of the Fund that the preparation of the financial statements is done on the “accrual basis”, the financial statements of the Excise Gift Fund for the year ended 31 December 2024 had been prepared on the cash basis. Accordingly, under the income of the financial performance statement, the confoundable fee of Rs. 87,866,396 and the reward money payment of Rs. 55,874,888 should have been identified and accounted for, but the confoundable fee received in cash was Rs. 159,642,538 and the reward money paid in cash was Rs. 36,860,836 which had been accounted as confoundable fee receipts and reward payments for the year under review.	This accounting method is adopted to ensure that the fund is able to achieve the method of receipts and to maintain the accuracy and rationality of the disclosure in the financial statements in accordance with paragraph 05 of the Excise Notification No. 818. Also, by disclosing the actual receipts, confoundable fees and actual payments during the year under review, the Excise Reward Fund financial statements provide a high level of understanding to the users of those financial statements.	Action should be taken according to Sri Lanka Public Sector Accounting Standards.

(b) The Excise Reward Fund's statement of financial position as at 31 December 2024 had not been included a balance of the confound fee receivable. Also, the Excise Department had not had an efficient methodology to accurately identify the amount received in cash from the confound fee prescribed for each year and the confound fee still receivable	Since accounting for expected confound, fees received would create confusion in achieving the desired objectives of the Excise Fund and in disclosing them through financial statements, accounting has been done only on actual receipts.	Action should be taken according to Sri Lanka Public Sector Accounting Standards.
(c) The value of reward money payable identified in relation to confound fees collected in the year 2024 or previous years was Rs. 26,873,465, which had not been paid as of 31 December 2024 and that value had not been accounted for as reward money payable in the statement of financial position as at 31 December 2024.	The Excise reward Fund has adopted a cost-effective accounting system to achieve the objectives for which it was established. By disclosing the financial statements based on the methodology indicated by the audit, the management and disclosure of the activities of the reward Fund will be left without limits. As indicated by the audit, introducing a large and complex accounting system will incur additional financial costs, human costs, and the opportunity to present the accounting system in a very simple and understandable way is lost. Therefore, the easiest method has been adopted to prepare financial statements and document and maintain accounting information.	Action should be taken according to Sri Lanka Public Sector Accounting Standards.

1.5.2 Property, Plant and Equipment

The following deficiencies were revealed during the sample inspection of property, plant and equipment.

Audit Observation	Comment of the Management Recommendation
(a) Although the carrying value (cost), accumulated depreciation and net carrying value of the property, plant and equipment should be disclosed in the asset schedule in accordance with paragraph 86 of Sri Lanka Public Sector Accounting Standards - 07, only the net carrying value of the property, plant and equipment, which was Rs. 96,364,434, had been disclosed. The gross	The observations are correct. Relevant instructions and guidance were given to the responsible officer to correct the final accounts relating to the Excise Reward Fund for the year 2025. Action should be taken according to Sri Lanka Public Sector Accounting Standards.

carrying value of the property, plant and equipment as at the end of the year under review was Rs. 202,144,484.

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| <p>(b) The closing asset balance of the year under review in relation to three asset categories stated in the Statement of Financial Position of the Excise reward Fund had been accounted by Rs. 780,167 more and the depreciation expense had been accounted for by Rs. 260,091 more for the year. Also, had been remitted to the Depreciation Reserve Fund Rs. 260,091 more for the year 2024.</p> | <p>The audit observations were agreed upon and instructions and guidance were provided to the relevant officers to correct the financial statements in the preparation of the next year's financial statements.</p> | <p>The total of the asset schedule should be calculated accurately and then financial statements should be prepared.</p> |
| <p>(c) The assets worth of Rs. 109,659, which had been disposed in 2023, had not been removed from the asset schedules in the year under review and Rs. 1,394 had been depreciated on it.</p> | <p>The observations are correct. Relevant instructions and guidance were given to the responsible officer to correct the final accounts relating to the Excise Reward Fund for the year 2025.</p> | <p>The asset schedules related to the financial statements should be prepared correctly.</p> |

1.5.3 Deposit Balances

The following deficiencies were revealed during the sample examination conducted regarding deposit balances.

Audit Observation	Comment of the Management	Recommendation
The security deposit balance of Rs. 19,749,450 deposited from the year 2001 to the year 2023 for the recovery of confound fees for industrial crime reports had not been included in the financial statements of the Fund.	While agreeing with the audit observations, the relevant officers were instructed to credit identifiable security deposits to the Excise Reward Fund in future and to settle unidentified and unidentifiable security deposits without any doubt in accordance with Financial Regulations 570 and 571.	Monetary regulations should be followed.

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

Reference to Law, Rules & Regulations	Non-compliance	Comments from the Management	Recommendation
Section 17 (a) I and II of the Tobacco Excise Act No. 08 of 1999	Although a Tobacco Reward Fund was to be established and maintained using 25 percent of the cigarette fines received under the Tobacco Excise Act, no steps had been taken to establish such a fund from the date of the commencement of the Tobacco Excise Act No. 08 of 1999 until the end of the year under review. the accumulated total amount allocated to the Tobacco reward Fund annually, Rs. 25,427,350, had been shown under the long-term liabilities in the statement of financial position of the Excise reward Fund as money payable to the Tobacco Fund without being used for the purposes of the Tobacco Reward Fund.	The proposal to establish the Tobacco Fund has been submitted to the Ministry of Finance, Planning and Economic Development on 07.03.2025. After receiving formal approval, steps will be taken to establish the Tobacco Fund.	Action should be taken in accordance with the Tobacco Excise Act No. 08 of 1999.

2. Financial Review

2.1.1 Financial Results

The operational result of the year under review was a surplus of Rs. 87,408,658 Rs. and the surplus of the preceding year corresponding to that value was Rs. 36,968,594. Accordingly, an increase of Rs. 50,440,064 was observed in the financial result. Thus, the increase in the financial result of the Fund compared to the previous year was mainly due to the decrease in prize payments of Rs. 52,605,058 or 62 percent compared to the previous year.

2.2 Net Assets

Audit Observation	Comments from the Management	Recommendation
A comparison of the net assets of the Excise Gift Fund for the year under review and the previous 4 years revealed a deterioration in the financial performance of the Fund in 2020 and 2021, resulting in a gradual and significant decline in net assets in those years. Net assets had been growing steadily since 2022, with the growth rates in the previous two years being 12 percent and 26 percent.	agreed, with the audit observations.	Efforts should be made to achieve the fund's primary objectives.

2.3 Revenue collection progress

Audit Observation	Comments of the Management	Recommendation
The compound fees imposed for industrial crimes during the previous year were Rs. 145,361,398 and it had decreased by Rs. 57,495,002 to Rs. 87,866,396 during the year under review.	agreed, with the audit observations.	The focus should be on achieving qualitative progress in raids.

3. Operational Review

3.1 Industrial Crime Capture Inspection

Audit Observation	Comments of the Management	Recommendation
In the examination of progress in meeting industrial crime targets, most excise stations had been made seizures exceeding the targets set for the year 2024, while the progress in meeting the targets of 12 excise stations had been lowered than the targeted seizures. Of these, the progress of 03 stations had been between 25 percent and 75 percent.	agreed, with the audit observations.	Focus should be placed on achieving targeted outcomes both quantitatively and qualitatively.

4. Internal Control

Audit Observation	Comments of the Management	Recommendation
In accordance with Section 40 (3) of the National Audit Act, No. 19 of 2018, no internal audits had been conducted on the activities of the Excise Prize Fund during the year under review.	agreed, with the audit observations.	Internal audits should be conducted regarding the functioning of the fund.