

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Excise Department of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 including my comments and observations on the financial statements of the Excise Department of Sri Lanka was issued to the Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018, and the Detailed Annual Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 30 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 accompanying financial statements give a true and fair view of the financial position of the Excise Department of Sri Lanka as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 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 of Sri Lanka 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.

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 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:

- 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 Department's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters 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 (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the Excise Department of Sri Lanka to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of Financial Statements with the Provisions of Circulars

Financial statements should be prepared in accordance with the State Accounts Circular, No. 267/2018, dated 21 November 2018. However, instances of deviations from that requirement, are as follows.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) A value equivalent to the balance of Rs. 982,032,375 shown in the statement of financial position as Property, Plant and Equipment, should be stated as a reserve	Action should be taken in accordance with the provisions of State Accounts Circular, No. 267/2018, dated 21 November 2018.	What is pointed out is correct. When preparing the statement of financial performance for the year 2019, action will be taken to show a value equivalent to Rs. 982,032,375 being Property, Plant and Equipment, as reserves.

value under the net assets / capital in terms of Section 7 (IV) of the State Accounts Circular, No. 267/2018, dated 21 November 2018. However, it had not been so done.

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| <p>(b) When preparing the statement of financial performance in terms of the State Accounts Circular, No. 267/2018, dated 21 November 2018, values budgeted for the year 2018 should have been included therein. However, there had been instances in which, it had not been so done.</p> | <p>Action should be taken in accordance with the provisions of State Accounts Circular, No. 267/2018, dated 21 November 2018.</p> | <p>What is pointed out is correct. Those values could not be included by mistake. Action will be taken to include them when preparing the statement of financial performance for the year 2019.</p> |
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1.6.2 Accounting Deficiencies

(a) Statement of Financial Performance

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>(i) According to the monthly summary, the other receipts amounted to Rs. 86,939,143. The statement of financial performance had been prepared without being compared with the Notes of the Treasury, thus</p>	<p>Attention should be drawn on the monthly summaries. Action should be taken to compare the receipts of revenue with the reports of analyses.</p>	<p>The observations are correct. The statements of financial performance had been prepared by including the receipts in the Treasury Deposit Account and Reward Fund Reserve Account as other receipts. But, it is stated that the correct value of receipts amounted to Rs. 86,939,143.</p>

indicating the said value as Rs. 243,586,169.

- (ii) The monies received by the Excise Reward Fund and the Depreciation Reserve Fund totaling Rs. 183,372,534 had been shown as other receipts in the statement of financial performance furnished. However, the total of the deposits relating to those accounts amounting to Rs. 465,068,138 , had not been shown in the statement of financial position.
- (iii) According to the monthly accounts summary, and the debit notices of the Department, a total of Rs. 113,741,682,208 had been remitted to the Treasury. But, that value had been shown as Rs. 113,590,225,124 in the statement of financial performance without being tallied.
- (iv) The other revenue amounting to Rs. 86,939,142 as per the monthly summaries, had not been included in the statement of financial performance.
- The financial statements should be prepared in terms of provisions of the State Accounts Circular.
- The observation is correct. Action will be taken to prepare with the correct balance.
- The total remittances made to the Treasury should be computed correctly.
- What is pointed out is correct. It is stated that the total remittances to the Treasury should be Rs. 113,657,748,686.
- Computations should be made accurately.
- The observation is correct. The said balance could not be brought to accounts by mistake when preparing the statement of financial performance. Action will be taken to correct that issue through the accounts of the year 2019.

(b) Statement of Financial Position

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(i) The balance of unsettled lease rent advance for buildings of the Department amounted to Rs. 3,355,000 as at 31 December 2018. However, that value had not been shown in the statement of financial position as work done and advance reserves. Furthermore, the said value had also been omitted in the ACA-5 (B) note annexed to the financial statements.	The annual financial statements should be prepared in accordance with the State Accounts Circular, No. 267/2018, dated 21 November 2018.	The declaration is correct. It is informed that the value could not be included into the note, ACA-5 (B) by mistake. Action was taken in the year 2019 to settle the said unsettled balance.
(ii) According to the financial statements, the balance of the Property, Plant and Equipment amounted to Rs. 982,032,375 as at 31 December of the year under review. However, the said value amounted to Rs. 1,659,059,552 as per the information made available to Audit, thus observing a difference of Rs. 677,027,177.	The Register of Fixed Assets and schedules should be updated.	The observations are correct. The value of Property, Plant and Equipment amounted to Rs. 1,659,059,552. The correct values will be taken into account when preparing the statements of financial performance for the year 2019.

1.6.3 Reconciliation Statement on the Advances to Public Officers Account

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) A sum of Rs. 2,579,716 had been included in the classification of individual balances as an unidentified balance.	Action should be taken to identify the unidentified balances by making comparisons with the monthly summaries.	Action has been taken to identify and record in the books.
(ii) A sum of Rs. 783,684 remained recoverable from 9 officers who had been interdicted as at 31 December 2018. The said sum comprised a balance of Rs. 140,202 recoverable from 02 officers continued to exist over 5 years, and a balance of Rs. 335,827 older than 3 years recoverable from 3 officers. No action had been taken for the recovery of those monies.	Action should be taken in accordance with Sections 8.1 and 8.2 of Chapter XLVII of the Establishments Code.	It is kindly informed that action will be taken to recover in the future.
(iii) The loan balance of Rs. 591,273, recoverable as at 31 December 2018 from the officers of the Department who had vacated the service, been dismissed, or resigned, continued to exist over periods ranging from 6 to 10 years. The Department had not taken sufficient measures to settle such loan balances.	Action should be taken in accordance with Sections 8.1 and 8.2 of Chapter XLVII of the Establishments Code.	It is kindly informed that action will be taken to recover in the future.

1.6.4 Deposits

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(i) According to the printouts of the Treasury, the values of receipts and payments of deposits amounted to Rs. 226,519,053 and Rs. 185,331,126 respectively. However, those values had been shown as Rs. 43,146,519 and Rs. 34,337,939 respectively in the statement of financial performance.	Comparisons should be made in accordance with the Treasury printouts thus taking action to input the correct data.	The observations are correct. The statement of financial performance had been prepared without considering the balances of receipts and payments of the Deposit Account and the Excise Reward Deposit Account. It is noted to include them in the statement of financial performance for the year 2019.
(ii) According to the statement of financial position, the balance of the Deposit Account amounted to Rs. 112,995,422 but that balance amounted to Rs. 578,063,562 as per the printouts of the Treasury.	Comparisons should be made in accordance with the Treasury printouts thus taking action to show the correct balance.	The declaration is correct. Action will be taken to rectify the balance in the Deposit Account through the final account of the year 2019.

1.6.5 Imprest Balance

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
According to the Treasury printout, the imprest balance amounted to Rs.	Should be shown correctly by comparing with the printouts of	The declaration is correct. Even though the Treasury imprest balance had been

117,023,968 as at 31 the Treasury.
December 2018, but that
balance had been shown in
the cash flow statement and
the statement of financial
position as Rs. 33,090,446.

shown as Rs. 117,023,968 as
at 31 December, sums of Rs.
83,053,521.91 and Rs.
880,000 had been remitted to
the Treasury through debit
notices (copies annexed) in
order to make the cashbook
zero on 31 December. As such,
it is informed that the sum of
Rs. 33,090,446 shown in the
financial statement, is correct.

1.6.6 Failure to Maintain Registers and Books

It was observed in audit test checks that some of the following registers had not been maintained by the Excise Department of Sri Lanka whilst certain registers had not been maintained properly and up-to-date.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(i) Register of Fixed Assets

The Register of Fixed Assets had not been updated in accordance with the Treasury Circular, No. 842, dated 17 December 1978 / Financial Regulation 502(2) and Appendix 11 thereof.	The Register of Fixed Assets should be maintained with the agreement of the Auditor General in terms of the Treasury Circular, No. 842, dated 17 December 1978 / Financial Regulation 502(2) and Appendix 11 thereof.	The Register of Fixed Assets has been updated by now.
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(ii) Register of Fixed Assets on computers, accessories and software.

The Register of Fixed Assets on computers, accessories and software had not been maintained in terms of Treasury Circular, No.	A Register of Fixed Assets on computers, accessories and software should be maintained in terms of	It is expected to take action in this regard in due course.
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IAI/2002/02, dated 28 Treasury Circular, No.
November 2002. IAI/2002/02, dated 28
November 2002.

1.6.7 Lack of Audit Evidence

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
No replies had been furnished even up to 27may 2019 with respect to 08 audit queries presented to the Department in the year under review. The value of computable transactions relating to those audit queries, totaled Rs. 3,097 million.	Action should be taken to provide replies for the audit queries promptly.	Action will be taken to furnish replies on time.

1.6.8 Certifications to be Made by the Chief Accounting Officer / Accounting Officer

The Accounting Officer should have certified the following matter in terms of the provisions of Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
The Chief Accounting Officer and the Accounting Officer should certify that a productive internal system of control is formulated and maintained for the financial administration of the Department. The productivity thereof should be reviewed from time to time and changes should be made accordingly to maintain the	Action should be taken in terms of Section 38 of the National Audit Act, No. 19 of 2018.	Measures have been taken to formulate the productive internal control system, and carry out reviews thereon.

productivity of the system. Such reviews should be made in writing, and a copy thereof should be furnished to the Auditor General . However, no statement to the effect that such reviews had been made, was furnished to the Audit.

1.6.9 Non-compliance with Laws, Rules, and Regulations

The instances of non-compliances with provisions of the Laws, Rules, and Regulations observed in the audit test checks, are analysed below.

Reference to Laws, Rules & Regulations	Value	Non-compliance	Recommendation	Comment of the Accounting Officer
	Rs.			
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
Financial Regulation 396	61,810	Action had not been taken in terms of Financial Regulations on 10 cheques worth Rs. 61,810 exceeded 06 months from the date of issue.	Action should be taken in terms of the Financial Regulations.	The declaration is correct. Action has been taken to credit the cheques older than 06 months to the Government revenue.
(b) Paragraph 11 of Schedule III of the Excise Notification, No. 902 published in the Gazette Notification, No. 1544/17, dated 10 April 2008.		Contrary to the provisions, 07 liquor licenses had been granted by exceeding the limit for 04 provinces.	The Gazette Notification should be adhered to.	It is reported in due course on the said 07 liquor licenses.

1.6.10 Irregular Transactions

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) Approval had been granted in the year 2018 to renew 38 entertainment bar licenses for cinemas (F.L. 9). However, the following matters were observed in the audit test check conducted on the locations relating to those licenses.		
(i) The distance in regard to the location had not been fulfilled in 18 instances.	The licenses should be issued in compliance with the relevant Laws and Rules as per the Excise Notifications.	The requirements relating to the premises are expected to be met under regulation of the Film Corporation, and the Department provided instructions in that connection. Instructions have already been given to rectify the existing deficiencies after having discussions with the Film Corporation.
(ii) Liquor had been sold to external persons in 07 instances other than the viewers of the film halls.	The licenses should be issued in compliance with the relevant Laws and Rules as per the Excise Notifications. Necessary action should be taken against those who violate the provisions.	In case of a violation of conditions of the license, a technical crime report is submitted in terms of Section 48 of the Excise Ordinance. Such offences can be arbitrated in terms of Section 56 of the Excise Ordinance; accordingly, arbitration fees and fines are charged. In case of a failure to pay the arbitration fees, the license can be suspended.

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| (iii) | Seven instances were observed in audit test checks in which liquor had been sold by breaching the conditions of licenses even when no films had been shown in the film halls. Licenses had been issued without looking into such issues. | Breach of conditions stated on the license should be examined. Action should be taken against those who breach them. | Instructions have been given to take corrective and legal measures in that regard by specifically examining the locations of licensees. |
| (iv) | Lack of a verification that Excise Officers carry out proper inspections on the locations of the licensees. | The business premises of the licensees should be inspected. | Not replied. |

1.6.11 Transactions of Contentious Nature

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- ---
(a) The Condition, No. 12 of the Excise Notification, No. 666 of the Excise Ordinance, states that the licenses are not transferable, and the appointment of the license manager should not be replaced by someone else without obtaining prior approval of the Commissioner of Excise and nor should any agent be appointed to lease or control. However, it was observed that a certain	The conditions mentioned in Excise Notifications, should be adhered to. Proper action should be taken in case of deviations.	No replies had been furnished.

Wine Stores, without obtaining approval of the Commissioner of Excise, had allowed a different institution to carry out business using the license through an unnumbered letter, dated 03 September 2018 by charging a monthly management fee of Rs. 60,000.

- (b) According to the Letter, No. සුකොඡ/පොදු/06/14 dated 30 April 2014, samples of toddy collected once per 3 months from toddy manufactories, should be sent to the Government Analyst. Furthermore, as per Paragraph 12.2 of Chapter IV of the Department Ordinance, the Excise Officers in charge of the bottled toddy manufactories, should collect samples from the bottles of toddy after completion of every production process, and such samples should be sent to the Government Analyst. However, it was revealed in the inspection on collecting samples at 6 manufactories in the excise division of Madampe, that samples had been collected once per year in the years 2014, 2015 & 2016
- Necessary action should be taken in accordance with the directives of the Department
- Irregularity in collecting samples of toddy is accepted. Instructions to remedy this situation have been given.

whilst samples had been collected only 2-3 times in the year 2017. Action had not been taken up to 24 July 2018 to collect samples at least once for the year 2018.

(c) In order to supply toddy to a distiller in Dummalasuriya, named Acme, a private toddy supplier had been given approval to tap 2,847 coconut trees in Henawatta land, Mirislanda, and 1,500 coconut trees in Egodawatta land. The following matters were observed in that connection.

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| (i) | It was observed in the field inspection carried out on 26 July 2018 that the number of coconut trees being tapped in Henawatta land, Mirislanda had not exceeded 500 trees whilst coconut trees not over 300 had been tapped in Egodawatta land. | The accuracy of information received from field inspections and other sources should be verified before granting approval. | Transport licenses are issued based on the number of coconut trees for which approval is granted for toddy tapping. Due to various practical issues, the approved coconut trees may or may not be tapped. However, the Excise Officers supervise the process from tapping until being received by the distillery. |
| (ii) | A license under the No. CS 18/2018 had been issued for a toddy collecting center in Egodawatta, Madampe. Nevertheless, such a toddy collecting center had not been established at the said location. | - Do - | Not replied. |
| (iii) | This supplier had been granted approval | - Do - | Not replied. |

through the Letter, No. එල්බී/ස්පීචු/ඇක්මී/දුම් of the Deputy Commissioner of Excise (Revenue), dated 29 January 2018 to transport a volume of toddy equivalent to 5000 coconut trees to the Acme Lanka Distillery, Dummalasooriya daily. (up to 31 December 2018)

- (iv) According to the matters mentioned above, the number of coconut trees approved for tapping, had only been 4347, and of that, licenses had been granted to tap only 3000 coconut trees for the Acme Lanka Distillery. An actual number of coconut trees not exceeding 800, had been made use of for tapping for toddy, but it was observed that licenses had been granted to transport toddy equivalent to 5000 coconut trees. As such, approval granted on collection and transportation of toddy equivalent to over 4000 coconut trees without being tapped, had remained contentious in audit.
- A methodology should be prepared to grant transport licenses by taking into account the production capacity and the number of coconut trees actually tapped.
- Not replied.

- (d) When granting a license of any type, an Excise Inspector should check the particulars stated in the application and
- The conditions set out in Excise Notification should be met, and action should be taken to
- When the other Inspectors are busy with raids , court duties, and inspecting the licensed locations, the Officer in Charge recommends the licenses.

annexure as to whether the guidelines and conditions set out in Schedule III of Excise Notification, No. 902 have been met, thereby including his observations. Thereafter, recommendations should be included by the Officer in Charge of the Excise Office or the Superintendent of Excise. However, this procedure had not been followed at the Excise Office, Ja Ela in granting recommendations for licenses; thus, 15 instances were observed in which all the steps had been done by the Officer in Charge of Excise himself thereby providing recommendations, whilst 02 similar cases were observed in the North Western Province.

strengthen the internal control relating to the issue of licenses.

There are about 120 licensed locations, and 15 of them had been recommended by the Officer in Charge.

- (e) It is mandatory for the arbitration fees to have been settled relating to the technical crimes when renewing the licenses. Nevertheless, 27 instances of failure in doing so were observed with 3 excise locations that had undergone audit test checks.
- The conditions set out in Excise Notification should be adhered to.
- Not replied.

2. Financial Review

2.1 Revenue Administration

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) According to the initial estimate of the year under review, the excise revenue (liquor) amounted to Rs. 125,000 million, but as per the revenue statement (ACA-1) presented, the revised estimated amounted to Rs. 115,000 million. The approval obtained from the Department of Financial Policies relating to such a revision, had not been made available to the Audit.	The budget estimate should be prepared in a realistic manner in accordance with Financial Regulation 128 (1) (a). The revenue administration should be efficient in accordance with provisions of the Public Financial Circular, No. 01/2015, dated 22 July 2015.	Attention has been drawn in this connection, and the relevant analyses are being conducted by appointing a Committee. Once the analyses are completed within a month, the relevant report will be made available to the Auditor General.
(b) The initial estimated revenue for the year under review amounted to Rs. 125,000 million whereas the revenue collected by the Department, amounted to Rs. 113,850 million indicating 91 per cent of the estimated revenue.	- Do -	- Do -
(c) It was observed that the excise revenue of the year 2016 amounting to Rs. 120.2 billion, had decreased to Rs. 113.8 billion by 5.3 per cent in the year 2018. However, it was not observed that the management had drawn	Provided that a higher tax had been imposed on liquor during that period, an in-depth analysis should be carried out as to whether the excise	Not replied.

attention to analyze the factors attributable thereto and remedial measures therefor.

revenue had decreased due to decreased consumption of liquor, or illegal liquor entering the market evading tax, thereby securing the Government revenue.

- (d) The lease rents in arrears continued to exist over 5 years pertaining to 5 companies , totaled Rs. 480 million as at 31 December 2018. The total of the demurrages, amounted to Rs. 1,543.78 million. Moreover, cases had been filed against 2 companies whereas no legal action had been taken on 03 companies.
- The officer, collecting revenue, should act in accordance with Financial Regulation 175 (2). Action should be taken on the officers neglecting that responsibility in terms of Sections 8.1 & 8.2 of Chapter XLVII of the Establishments Code.
- The Attorney General has been requested to take legal action against Wayamba Distilleries Company, Wayamba Wholesale Store, and Globe Blenders Company.
- (e) Action had not been taken in terms of Financial Regulation 176 (2) & (3) relating to collection of revenue in arrears.
- Action should be taken to collect revenue in terms of Financial Regulations.
- Agreed.
- (f) According to the Notification, No. EC/C/04/2015, dated 22 October 2015, the lease rent in arrears amounting to Rs. 50.6 million recoverable from Hingurana Distilleries Company Limited , had not been included in the outstanding revenue. Furthermore, the receivable taxes totaling Rs. 158.36 million including the outstanding tax of Rs. 108.74 million further receivable from the said Company as at
- The officer, collecting revenue, should act in accordance with Financial Regulation 175 (2). Action should be taken on the officers neglecting that responsibility in terms of Sections 8.1 & 8.2 of Chapter XLVII of the Establishments Code.
- The sum of Rs. 50,620,739 payable by the Hingurana Distilleries Company Limited, has not been paid so far. Furthermore, the sum of Rs. 107,738,461 payable by this Company, is being paid in terms of monthly installments amounting to Rs. 15,391,208, and it is scheduled to complete payment by 31 July 2019. Action is taken to show under outstanding

31 December 2018 as per the investigation carried out by the Department of Excise in regard to Customs Case, No. PCAD/HGO/029/2015/CCR/1952, had not been included in the outstanding revenue.

revenue in the final accounts.

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| <p>(g) In terms of Section 2 of the Tobacco Tax Act, No. 8 of 1999, there shall be charged, levied, and paid on every cigarette, cigar, beedi, and every kilogram of pipe tobacco manufactured in Sri Lanka, a tax at such respective rates as may be fixed by the Minister by Order published in the Gazette. Nevertheless, the Department levies the tobacco tax only on the tobacco being used for cigarettes. As such, it was observed in audit that the Department had not complied with the Tobacco Tax Act.</p> | <p>The Tax should be complied with.</p> | <p>It is not a practical possibility to directly supervise the production of cigars and beedi. It is problematic to levy a tax on the units of products, and as an alternative, it is included in the proposed amendment to the tobacco tax directive (general) to levy a tax on the amount of tobacco used for producing beedi and cigars.</p> |
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2.2 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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<p>(a) Due to failure in properly preparing the estimates in terms of Financial Regulation 50, a sum of Rs. 50 million had been provisioned through supplementary estimates for one</p>	<p>Estimates on expenditure should be prepared accurately in terms of Financial Regulation 50.</p>	<p>Non-receipt of approval for awarding tenders, having to execute additional activities with the scope of the Department broadened in parallel with the drug prevention programme, and having to obtain additional provision when provision was not adequate.</p>

Object whilst a sum of Rs. 84.5 million had been provisioned for 10 Objects through transfers relating to Financial Regulation 66.

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| (b) | Even though provision totaling Rs. 639 million had been made in respect of 16 Items of Expenditure, provision totaling Rs. 252 million only had been utilized. The saving in those Items of Expenditure ranged between 13 per cent and 100 per cent of the net provision made. | - Do - | Due to reasons such as, failure of the officers to participate in the training planned for them, inadequacy of time for the procurements, non-receipt of vouchers on time, delays in the preparation of building estimates, and disposal of vehicles without being repaired, the provision obtained had been underutilized. |
| (c) | Of the total net provision amounting to Rs. 317.6 million made for 3 Items of Expenditure, had been saved in full without making any utilization. | - Do - | The provision was not utilized due to reasons such as, failure to obtain vehicles on operating lease, failure in obtaining approval on the safety sticker expected to be used on liquor bottles, and non-receipt of approval for preparation of computer software expected to be used for tax computation after the procurement. |

2.3 Incurring Liabilities and Commitments

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
Information relating to liabilities totaling Rs. 03 million, had not been shown on the relevant format.	All the liabilities should be shown in the accounts.	The declaration is correct. Showing those balances of liabilities on the format presented was omitted. Action is taken to rectify this issue in due course.

2.4 Deposit Balances

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
According to the Financial Regulation 571, all the expired deposits should be credited to the Government revenue. However, it was observed that action had not been taken in such a manner with respect to a sum totaling Rs. 4.7 million relating to 46 miscellaneous deposits.	Action should be taken in terms of Financial Regulation 571.	The declaration is correct. Action will be taken to credit the said deposits to Government revenue through the account summary for May, 2019.

3. Operating Review

3.1 Failure to Discharge Functions

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
(a) A sum of Rs. 1.59 million had been spent in the year 2017 on the procurement activities of the project for the supply of safety stickers to be used on liquor bottles and products associated therewith, and the supply, installation, and maintenance of a safety sticker management system. Furthermore, provision amounting to Rs. 250 million had been made for the year 2018, but that project could not be implemented up to the date of audit in 2019.	Projects should be implemented within the specified duration ensuring the Government revenue.	About 95 per cent of the works relating to the Fool Proof Sticker Programme has been completed. The Department of Public Finance has already been requested for approval to display the sticker on imported liquor bottles from 01 June 2019, and the locally made bottles of liquor from 01 August 2019 thereby publishing on the Gazette. As such, it is informed that this activity would be commenced on the relevant days after being published through a Gazette notification.
(b) For the implementation of a software system in view of accurate tax computation, the Department had made provision totaling Rs. 87.2 million comprising a sum of Rs. 18.6 million through budgetary provision for the year	This project proposed to ensure efficiency in computation and collection of tax, should be implemented within the specified duration.	Action is being taken to implement this system considering the requirement of an excise revenue management system which has already been delayed. Although provision had been made through budgetary provision, such provision could not be utilized due to reasons such as, ending of the procurement process while in

2016, a sum of Rs. 18.6 million through supplementary provision of the year 2017, and a sum of Rs. 50 million through supplementary provision for the year 2018. Nevertheless, that project could not be implemented even up to the date of audit in the year 2019.

progress, and the expectation that this project would be implemented under the World Bank Project.

3.2 Annual Performance Report

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) The information furnished on the following matters included in the Performance Report of the year 2017, was observed to be incorrect.		
(i) It was reported in the Tables 8.7 & 8.8 of the report that 48 million liters of malt liquor (beer) had been produced in the year 2017. However, it was shown as 70 million liters in Table 8.20 of the revenue analysis report.	Proper coordination should be ensured between each division thus taking action to furnish accurate reports.	The tax policy was changed on 09 November 2018 based on the budget policy of the Government, giving rise to the said issue.
(ii) The "3A" report on the consumption of alcohol in the year	- Do -	The possibility exists for errors to occur when recording & summarizing the

2017 had been prepared with inaccurate data relating to wine, foreign liquor, arrack, and toddy.

data received from each licensed location, and preparing reports based thereon.

This situation would be avoided in the future by enabling the licensees to provide data online through the Excise Revenue Management System scheduled to be introduced under the World Bank Project relating to Public Sector Efficiency Enhancement Programme.

- (iii) Ethanol being received from local and foreign sources, is being used in the country for various industrial products. Action had not been taken to include information such as, volume of ethanol imported, companies using ethanol, and the products for which ethanol had been used, into the annual Performance Report. Action should be taken to furnish reports with information directly affecting the functionality of the Department.

The names of the licensees relating to industrial products have been included under Chapter 8.7 of the Performance Report for the year 2017. As there exists a large number of industrial products, it is informed that including them into the Performance Report is a practical impossibility.

3.3 Procurements

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) In terms of Guideline 4.2.3 of the Government Procurement Guidelines, it is the responsibility of the management to review the Procurement Plan monthly or quarterly and look into deficiencies or progress thereof, thereby taking remedial action in case of delays. However, it was observed that action had not been taken in that manner.	Action should be taken in accordance with Guidelines of the Government Procurement Guidelines.	The Procurement Plan had not been reviewed quarterly in accordance with Guideline 4.2.3 of the Government Procurement Guidelines in the year 2018 thus failing to make amendments. It is kindly informed that a proper methodology is in place for the year 2019 to conduct reviews quarterly or when necessary , and make amendments from time to time.
(b) Seven instances were observed by the Audit in which the annual Action Plan had not been prepared in line with the Procurement Plan and the annual budget. As such, it was observed that the objectives expected in the Procurement Plan were not fulfilled.	The relevant plans should be prepared by considering the Guidelines set out in Government Procurement Guidelines and the provisions of Circulars.	It is kindly informed that action has been taken to prepare the Procurement Plan in line with annual budget for the year 2019.

3.4 Losses and Damages

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) Tender notices had been published by the relevant Divisional Secretariats to sell the toddy taverns in the Puttlam district. However, some of the toddy taverns had not been sold through tenders during the period from 01 July 2017 to 30 June 2018. Apart from that, the toddy tavern No. 03 at Palakuda and the one in Daluwa had not been auctioned due to failure of the bidders to submit tenders matching the higher assessment of the Government. As the said tender had not been awarded to the relevant bidder, it was observed that the Government had been deprived of Rs. 3.5 million that could have been obtained from the tenders of the said 02 toddy taverns.	Action should be taken by minimizing the likely losses.	It is the Divisional Secretary of the relevant area who is responsible for toll renting and all the activities relating to tenders of toddy taverns. The Divisional Secretary is the Chairman of the tender board as well. Responsibilities of the Divisional Secretary includes, recovery of asset certificates and monies for toddy taverns, and calling for tenders again. Only the activities such as, deciding on the annual tender fee, approval of buildings for the toddy tavern, and supervision on the sale of toddy once the license is awarded for the tavern, are carried out by the Department of Excise.
(b) The relevant taxes should be paid to the Department of Excise for the bottles of	The officer collecting revenue should act in accordance with Financial Regulation	The Books of the Department do not indicate a payable balance. It will be reported in this connection after

toddy produced 175 (2). In case of any examining further.
 annually by the officers neglecting that
 Palmyrah and responsibility, action
 Coconut Resources should be taken
 Development against them in terms
 Cooperative Society of Sections 8.1 & 8.2 of
 of Kilinochchi. Chapter XLVII of the
 However, despite Establishments Code.
 being reported that Moreover, if any
 the said Society had revenue is deprived of
 produced 2,266,790 the Department, action
 bottles of toddy (625 should be taken to
 ml) up to the year recover such a
 2017, it was observed revenue.
 that taxes had been
 paid only for
 1,073,955 bottles. As
 such, evidence to the
 effect that taxes
 amounting to Rs.
 7,814,693 receivable
 on 1,192,835 bottles
 of toddy had been
 paid, was not made
 available.

- (c) No proper action had been taken even up to the date of audit in the year 2019 either to recover or write off the losses totaling Rs. 1.8 million relating to 7 vehicle accidents that had taken place in the preceding years; nor had any note relating thereto been entered in the statement of losses and omissions.
- Action should be taken properly either to recover or write off the loss in terms of Financial Regulation 104.
- As instructions had been given at the meeting of the COPA that the losses be recorded in the Register of Losses and Damages and written off from the accounts on approval of the Treasury, it is kindly informed that the said instructions would be followed in due course.
- (d) An approximate sum of excise duty amounting to Rs. 1,635 million, should have been levied in
- The officer collecting revenue should act in accordance with Financial Regulation 175 (2). In case of any
- It is observed that a Committee, comprising the most senior officers of the Department with knowledge and experience in supply chain

regard to a volume of 842,990 liters of alcohol with standard strength that had been sent to the market without paying excise duty after being produced by using 218,600 liters of ethanol spirit imported illegally by Hingurana Distilleries Company in the years 2012, 2013 and 2014. The Committee appointed in that connection had reported on an inaccurate basis that the excise duty that should be levied on the conversion of spirit to alcohol of standard strength, should be Rs. 589 million. The doubt that the Government had been deprived of a sum of about Rs. 1,046 million owing to the said computation, could not be ruled out in audit.

officers neglecting that responsibility, action should be taken against them in terms of Sections 8.1 & 8.2 of Chapter XLVII of the Establishments Code.

process of liquor as well as technical process relating to the production of liquor, had performed the relevant computations with maximum rationality based solely on the statements said to have been given by the respondent at the Customs investigation, thus taking action to provide the Government with tax revenue.

(e) The said Committee or any other party had not taken action to conduct a proper investigation in regard to the failure in revealing such an illegal production and issuance to the market over several years despite an office of the

- Do -

It appears that evidence substantial enough to accuse an Excise Officer, had not been found. What should be emphasized is that the Customs investigation and the Excise investigation had been conducted based solely on two statements made by employees without finding even a drop of ethanol or alcohol produced whilst the Department of

Department had been established at the premises of the production facility with officers attached to carry out supervision, thereby identifying the officers responsible.

Excise constantly challenged the respondent Company.

3.5 Management Inefficiencies

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
(a) According to regulations relating to the control of excise locations and special operations unit, the Assistant Commissioner of Excise and Superintendents of Excise should inspect the excise locations under their purview quarterly or half-yearly. However, the inspections remained poor as the number of inspections carried out yearly had been only 02 (i.e. Ja Ela, North Western Province, film halls, places licensed with F.L. 9)	The inspections should be carried out in accordance with the directives of the Department, thus taking action to ensure Government revenue.	Despite being ordered that premises with excise licenses should be inspected at least on monthly basis, the Excise Officers have been instructed to inspect the licensed premises when found suspicious or felt necessary to do so. Nevertheless, based on the matters revealed in the audit, measures have been taken to maintain an even efficient inspection procedure on the licensed premises from now on.
(b) The Department had last purchased 100 Kg of Britex on 30 December 2016 , and	Plans should be prepared in a manner that the procurements can be completed	Purchases have been made by now.

the stocks had run out within the specified at the stores by 17 duration, thus taking December 2018. The action to minimize the Store Keeper unfavorable effect on requested the Chief Government revenue. Accountant on 05 June 2018 through the Administrative Officer (Supplies) for required stocks saying that the stock existing in the stores was 22,250 Kg and it was adequate only for 5 months. The procurement activities in that connection had been commenced from 14 June 2018, but the procurement activities had not been completed even by 09 April 2019.

4. Achievement of Sustainable Development Goals

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer ----- -----
<p>The Department was not aware of the goals and targets to be achieved in accordance with the “2030 Agenda” on sustainable development adopted by the United Nations. Action had not been taken to allocate provision thereon and include in the Action Plan.</p>	<p>Action should be taken to identify the goals, allocate provision to achieve them , include in the Action Plan and execute.</p>	<p>Action will be taken to apprise the officers of the Department relating to Sustainable Development Goals of the United Nations, and include the targets relating thereto in the Action Plan in due course thereby achieving the targets.</p>

5. Human Resource Management

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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Eighty three posts remained vacant since the years 2013 and 2016 in senior and tertiary levels that directly affected the mission of the Department. It was observed that this would cause an unfavorable effect on the performance of the Department.	Action should be taken to recruit the approved cadre by considering the requirements, or in case of excess posts, suitable action should be taken by holding discussions with the Treasury.	Not replied.
An officer who had served the Department as Commissioner of Excise, was attached to the Ministry of Finance and Media as a consultant on revenue policy from September 2017. A sum totalling Rs. 03 million including salaries and allowances, had been paid by the Department relating to the period from the said date up to 31 December 2018. Performance reports relating to the employment in the consultancy post, were not made available to the Audit.	Action should be taken to furnish the performance reports to the Audit.	Not replied.