

Excise Rewards Fund - 2020

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Excise Rewards Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 and Section 58 “a” of the Excise Ordinance No. 08 of 1912 as amended by Excise (Amendment) Act, No. 37 of 1990 and Excise Notification No. 818 under Section 32 (2) (q) of the Excise ordinance. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, and its financial performance and 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 based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 determines 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 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 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 Fund's 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 audit 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 audit 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; and
- 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 Observation on the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliances with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard -----	Comment of the Management -----	Recommendation -----
The accounting policy followed on the depreciation of fixed assets of the Fund had been revised contrary to Sri Lanka Public Sector Accounting Standard 03.	Due to a policy decision taken not to depreciate assets for the year 2020, no depreciations were made.	In case of changes to be made on the existing accounting policy, provisions under Sections 17 (a), and (b) of Sri Lanka Public Sector Accounting Standard 03, should be followed.

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
<p>a) Value of lands and buildings had been shown as Rs. 47,134,000 in the statement of financial position, but that indicated only the value of the building. However, the land where the building was, was not assessed and brought to accounts until the end of the year under review. Documents necessary for verifying the rights of the land were not made available to the Audit.</p>	<p>Action will be taken to compute depreciation on the buildings costing Rs. 47,134,100.00 in terms of Sri Lanka Public Sector Accounting Standard 07. The land taken over from the Divisional Secretary will be brought to books after being revalued.</p>	<p>The land of the building should be brought to accounts after verifying the rights and being assessed.</p>
<p>b) No adjustments were made for depreciation on buildings worth Rs. 47,134,000 even up to the end of the year under review. Provision for depreciation amounting to Rs. 5,223,703 had not been made in the year under review with respect to the other fixed assets valued at Rs. 25,259,100.</p>	<p>It is kindly informed that action had been taken not to depreciate assets due to a policy decision taken for not depreciating assets in the year 2020. This is shown under 2.6 in the Notes to the final report of accounts. Allocations for depreciation for the year 2020 had been made in the year 2021.</p>	<p>Sri Lanka Public Sector Accounting Standard 03 should be followed.</p>

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
<p>a) Sections 17(a) I and II of the Tobacco Tax Act, No. 08 of 1999.</p>	<p>A tobacco reward fund should have been established using 25 per cent of the penalties on cigarettes. However, no such fund had been established from the</p>	<p>A tobacco fund has not been established thus far. Action is being taken to do so in due course.</p>	<p>A tobacco reward fund should be established in terms of provisions of the Tobacco Tax Act, No. 08 of 1999..</p>

inception of the Fund up to the end of the year under review.

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| b) | Section 03 of the Public Finance Circular, No. 01/2014 dated 17 February 2014. | An Action Plan had not been prepared for the Fund relating to the year under review. | The relevant Divisions have been informed to prepare an Action Plan in due course. | Provisions of Circulars should be followed. |
| c) | Public Finance Circular, No. 01/2020 dated 28 August 2020; | | | |
| | (i.) Section 11.1, Financial Regulation 756(6). | Surveys should have been conducted on the fixed assets valued at Rs. 72,393,100 shown in the statement of financial position, and the reports thereof should have been presented to the Auditor General. However, it had not been so done. | Action will be taken to prepare such reports from the year 2021. | - Do. |
| | (ii.) Section 15.3, Financial Regulation 877 (2)(c). | Reports on the achievement of budgetary targets, and quarterly progress should have been presented to the Auditor General so that progress of the Fund for the year under review would have been reviewed. Nevertheless, it had not been so done. | Action will be taken to furnish such reports in due course. | - Do. |
| | (iii.) Section 15.3, Financial Regulation 877(2) (d) | A performance report of the Fund should have been presented along with annual financial statements of the Excise Rewards Fund for the year 2020. However, it had not been so done. | Action will be taken to do so with effect from the year 2021. | - Do. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 7,177,263 as against the deficit of the preceding year amounting to Rs. 160,411,245 thus observing an improvement of Rs. 167,588,508 in the financial result. Rather than the decrease in the receipt of arbitration fees by Rs. 86,140,308 representing 36 per cent, the decrease in the payment of rewards by 63 per cent or Rs. 247,663,593 had mainly attributed to the said improvement.

2.2 The balance of net assets of the Fund was observed to have deteriorated by Rs. 42,813,391 representing 11.6 per cent as compared with the preceding year. It was also observed that the cash balance of the cash flow statement had improved by Rs. 2,129,466.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation																								
<p>a) According to the information presented to the Audit by the law enforcement division of the Excise Department relating to the raids on technical crimes during the year under review and 04 preceding years, an annual decrease was observed in the number of raids carried out during 2016-2020. Particulars are as follows.</p> <table border="1"><thead><tr><th>Year</th><th>No. of Raids</th><th>Decrease Against the Preceding Year</th><th>Percentage of Decrease</th></tr></thead><tbody><tr><td>2016</td><td>4593</td><td>339</td><td>-</td></tr><tr><td>2017</td><td>4315</td><td>278</td><td>6</td></tr><tr><td>2018</td><td>3684</td><td>631</td><td>14</td></tr><tr><td>2019</td><td>3623</td><td>61</td><td>1.6</td></tr><tr><td>2020</td><td>2747</td><td>876</td><td>24</td></tr></tbody></table>	Year	No. of Raids	Decrease Against the Preceding Year	Percentage of Decrease	2016	4593	339	-	2017	4315	278	6	2018	3684	631	14	2019	3623	61	1.6	2020	2747	876	24	<p>The reason for the decrease in the number of technical crimes is that the Excise Officers constantly supervise the licensed locations thus ensuring that the licensees carry out their businesses within the legal framework. Thus, a decrease in the number of conditions of the licenses being breached was observed. As such, the number of raids on technical crimes has become low.</p>	<p>Continuous and proper inspections should be carried out on the licensed locations.</p>
Year	No. of Raids	Decrease Against the Preceding Year	Percentage of Decrease																							
2016	4593	339	-																							
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<p>b) After the arbitration, 3749 forfeitures relating to technical crimes were presented during the year under review</p>	<p>What is pointed out is correct.</p>	<p>Officers of the top level should make random</p>																								

by the officers in view of claiming for rewards. However, in the recovery of arbitration fees relating to technical crimes in terms of Excise Circular, No. 03/2011 dated 11 August 2011, major and minor breaches of conditions had been specified. As such, it was revealed in examining the reports relating to the recovery of fees on the said technical crimes that 2284 cases out of the total number of breaches were of minor nature representing 61 per cent whilst major breaches represented 39 per cent equivalent to 1465 cases.

selections and inspect the licensed locations, thus avoiding major breaches of conditions.

- c) A number of 141 forfeitures relating to technical crimes pertaining to 05 excise locations in the Northern Province and one excise location in the Western Province during the years 2019 and 2020, had remained unsolved up to the date of audit.

The relevant registers are being examined. A specific reply will be given in due course. Action has been taken to solve the reports of technical crimes remaining unsolved thus far.

Action should be taken to solve them within a specified time.
- d) Irregularities in paying rewards took place whilst the scope of the Department expanded after 26 years by 2020 since the Excise Notification No. 818 dated 04 March 1994 had come into effect. However, action has not yet been taken by considering those issues to amend the Excise Notification No. 818.

The process of amending the Excise Notification No. 818 dated 01 March 1994 is reaching conclusion.

The Excise Notification should be amended properly.
- e) Payment of excise rewards.
 - (i.) Legal provisions had been made in terms of the Excise Notification No. 818 for the payment of rewards. However, by disregarding the facts that official works becoming idle following the spread of Covid 19 in the country from 16 March 2020; reporting for duties in the months of May and June had been restricted to 1/3 of the staff; and, receipt of arbitration fees to the Fund became low, the working committee on administration approved payment of rewards for the first half of the year 2020

A limited number of officers reported for duty in order to continue the functions of the Department irrespective of the spread of Covid 19 whilst the other officers worked from home. As such, rewards equivalent to 50 per cent of the basic salary rather than 75 per cent, were paid.

Provisions in effect at present should be adhered to.

considering that the arrival and performance of the staff remained 100 per cent

- (ii.) According to the decision of the working committee, the maximum reward payable to an officer who is indirectly involved in forfeitures during the first half of the year 2020, should be equal to the basic salary for 2 1/2 months. However, having exceeded that limit, rewards totalling Rs. 2,012,879 had been paid to 27 officers. It was informed in writing that the overpaid rewards should be recovered. Accordingly, a sum of Rs. 355,000 was recovered only from 04 officers. The Audit was not informed on the action taken to recover the balance.
- As the Excise Notification No. 818 had been followed, the payments made were legal. Rewards were paid to those officers for executing the functions of the Fund. Those officers performed duties relating to the reports on technical crimes even during the spread of Covid pandemic. As such, the payments made to those officers complied to the Excise Notification No. 818, and hence, it is kindly informed that recovery of the payments is not necessary.
- The provisions in effect should be followed.

3.2 Operating Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
An amount equivalent to the value of annual depreciation on fixed assets, is credited to the depreciation reserve fund of the Treasury, and a balance of Rs. 56,284,583 existed in that fund as at 31 December 2020, but no action was taken to spent those monies productively. As the fixed assets were not depreciated in the year under review, the depreciation reserve fund was not credited.	Action is being taken to purchase computers and furniture for the Department for the year 2021 by using that fund.	The depreciation reserve fund should be made use of productively.

3.3 Underutilization of Funds

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 39.7 million had been allocated through the budget for the year under review with respect to training and study programs of the officers, commendable works, bravery, special duties, special raids, and purchase of furniture, office equipment and machinery relating to fulfilling the objectives of the Excise Rewards Fund. However, no expenditure had been incurred thereon during the year.	No requests were made during the year 2020 for making payments using the said provision	The provision allocated through the budget should be used to fulfil the objectives of the Fund.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
Financial statements were presented to the Audit on 17 February 2021. The revised financial statements were presented on 23 March 2021.	The revised financial statements were presented on 23 March 2021.	The existing provisions should be followed.

4.2 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
Comparison of the budgeted values and actuals of the year under review indicated that variations ranging from 18 per cent to 20 per cent existed in 02 items of revenue whereas variations ranging from 14 per cent to 100 per cent existed with respect to 07 items of expenditure. As such, it was observed that the budget was not made use of as an effective instrument of management control.	It is kindly informed that necessary action will be taken in due course to incur expenses in accordance with the budget.	The budget should be made use of as an effective instrument of management control