

## **Head 248 – Excise Department of Sri Lanka**

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### **1 Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Excise Department of Sri Lanka for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 08 June 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report relating to the Department was issued to the Accounting Officer on 29 July 2021 in terms of Sub-section 11 (2) of the Audit Act. 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 financial statements give a true and fair view of the financial position of the Excise Department of Sri Lanka as at 31 December 2020, 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**

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My opinion is qualified based on matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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**

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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 determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 of the Department.

As per 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 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 Responsibility for the Audit of the Financial Statements**

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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 structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements, including 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, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5. Report on Other Legal Requirements

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As required by Section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

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

## 1.6 Comments on Financial Statements

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### 1.6.1 Non-compliance of Financial Statements with Circular Provisions

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Even though financial statements should have been prepared in terms of Guideline No.06 issued by the Department of State Accounts, instances of deviations from that requirement, are as follows.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Shortcomings such as changing values between columns, erroneous recording of total values in columns, recording different values in columns and failure in recording values etc. were observed in 10, 6 and 8 instances of Sinhala, English and Tamil versions respectively in the set of financial statements submitted as per Formats of financial statements.	The relevant officers have been instructed to take action in a manner of avoiding such shortcomings in preparing accounts in future.	Action should be taken in terms of relevant Guidelines.

## 1.6.2 Statement of Financial Performance

### Receipt of Revenue

The following deficiency was observed in accounting receipts of revenue relating to the Department.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Even though the tobacco tax revenue had been Rs.38,565,392, according to financial statements as at 31 December 2020, according to information made available to Audit by the Revenue Division of the Department, tobacco tax revenue of the year under review had been Rs.32,140,567, thus observing a difference of Rs.6,424,825.	The total tax revenue recoverable for the relevant period is indicated in reporting revenue by the Tobacco Tax Division. However, in reporting revenue by the Accounts Division, the total revenue received by cash is indicated for the relevant period. As such, it is reported that there is a difference between the revenue indicated in these reports.	In reporting the revenue, the accurate value should be shown in accounts by comparing information between the Accounts Division and the Revenue Division.

## 1.6.3 Statement of Financial Position

### (a) Capital Expenditure

The following deficiencies were observed in accounting capital expenditure relating to financial statements.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(i) Expenditure on consultancy fees amounting to Rs.7,286,343 relating to the consultancy service provided by the Department of Buildings for constructions of the Head office of the Department had been brought to account under the Object No. 248-1-1-2104 as work-in-progress. The cheque No. 194890 dated 31 December 2020 relating thereto had been retained over a period of three months without handing over to the said Department and cancelled without giving explanation therefor.	The said cheque had been cancelled and credited to the Government revenue through accounts summaries for April due to failure in making a positive response relating to requests made regarding defects of the Head Office building and providing design plans thereon.	Action in terms of Financial Regulations 136-139 should be taken in making payments by examining whether the services relating to contract consultancy services had been provided properly as per agreements entered into.

- (ii) The value of 02 capital expenses totalling Rs.85,800 of the year under review had been shown in the Register of Liabilities as recurrent expenditure. It had been shown in the Register of Liabilities under recurrent expenditure by mistake. Accurate information should be included in schedules of financial statements.

**(b) Property, Plant and Equipment**

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The following deficiencies were revealed in accounting property, plant and equipment.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i) According to Treasury printouts, the value of property, plant and equipment (SA-80) as at 31 December of the year under review had been Rs.1,458,163,820 and according to financial statements it had been Rs.1,458,969,403, thus observing a difference of Rs. 805,583.	The value recorded in Departmental books is accurate. The error occurred in uploading had been the reason for the said difference between the balance according to the Treasury printouts and the balance according to Departmental books. Future action will be taken to rectify it.	Action should be taken in terms of relevant Guidelines of the Department of State Accounts.
(ii) Expenditure incurred under the Object No. 248-1-1-2104 in Format A.C.A.2.(ii) in the financial statements of the year under review, by the Department and other departments for construction of buildings had been Rs. 30,055,474 and Rs. 42,895,034 respectively. However, acquisition of office buildings had been indicated as Rs.30,055,474 during the year under review in the statement of non-financial assets- A.C.A. 6. As such, acquisition of buildings valued at Rs.42,895,034 had been understated.	Expenses incurred from provision granted to other departments had been understated in such a way in assets and a full report on the said expenditure has been requested from the Department of Buildings by now. Action will be taken to account as assets through the CIGAS Programme immediately after receipt of that report.	-Do-

- (iii) The balance of Rs.165,062,650 reported as the value of work-in-progress as at 01 January 2019 had been indicated as the same value of work-in-progress even as at 01 January of the year under review as per the Format A.C.A. 6 of the statement of non-financial assets. Accordingly, the value of work-in-progress of the year 2019 amounting to Rs.45,567,771 had not been indicated in the Format A.C.A. 6.
- A full report on expenditure incurred in the year 2019 has been requested from the Department of Buildings at present and action will be taken to account as assets under work-in-progress immediately after receipt of that report.
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#### 1.6.4 Deposits

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The following deficiency was observed in accounting payments of deposits and balances relating to financial statements.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Retention money amounting to Rs.9,946,304 payable to a contractor for constructions of the Head Office from years 2016 and 2017 had been retained in General Deposits. Problems such as failure in handing over designs and plans of the building properly, existence of defects in constructions and failure in taking proper measures thereon by the supervising agency of the contract had been the reasons therefor. Steps had not been taken even in the year under review to make necessary adjustments in accounts by solving those problems.	Even though requests had been made at several times to remedy these defects and shortcomings and to hand over designs and plans of the building duly, no positive responses had been made therefor. As such, these moneys had been credited to the Government revenue through the accounts summary for April.	Necessary adjustments should be made in accounts by solving problems in terms of agreements entered into with the contractor and the consulting firm by the Department.

### 1.6.5 Non-maintenance of Registers and Books

It was observed at the audit test checks that the following certain registers had not been maintained whilst certain registers had not been maintained in an updated and proper manner by the Department.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) <b>Register of Fixed Assets</b></p> <p>A Register of Fixed Assets had not been updated in terms of Treasury Circular No.842 of 19 December 1978 and Appendix 11 of Financial Regulation 502(2).</p>	<p>It will be maintained in an updated manner in future.</p>	<p>The Register of Fixed Assets should be maintained with the concurrence of the Auditor General in terms of Treasury Circular No.842 of 19 December 1978 and Appendix 11 of Financial Regulation 502(2).</p>
<p>(b) <b>Personal Emoluments Register</b></p> <p>A Personal Emoluments Register had not been updated in terms of Financial Regulation 453.</p>	<p>The Personal Emoluments Register is maintained in an updated manner.</p>	<p>A Personal Emoluments Register should be maintained in Form Treasury and Audit 17 in terms of Financial Regulation 453.</p>
<p>(c) <b>Departmental Appropriation (Votes) Ledger</b></p> <p>The Departmental Appropriation (Votes) Ledger had not been updated in terms of Financial Regulation 447.</p>	<p>The Departmental Appropriation (Votes) Ledger is maintained in an updated manner.</p>	<p>The Departmental Appropriation (Votes) Ledger should be maintained in an updated manner in Form General 138 so as to include provisions stipulated in Financial Regulation 447.</p>
<p>(d) <b>Security Register</b></p> <p>A Security Register containing the names of all officers required to give security had not been prepared in terms of Financial Regulation 891(1).</p>	<p>Action is being taken to open such Register.</p>	<p>A Security Register containing the names of all officers required to give security should be maintained in terms of Financial Regulation 891(1).</p>
<p>(e) <b>Record of Losses</b></p> <p>A Record of Losses had not been updated in terms of Financial Regulation 110.</p>	<p>It will be maintained in an updated manner in future.</p>	<p>A Register on Losses should be maintained as per the Form mentioned in Financial Regulation 110.</p>

## 1.6.6 Lack of Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
A schedule for deposits amounting to Rs.73,346,404 in General Deposit Account No. 6000-0-0-18-0-122-0 from the year 2018 to 2020, had not been made available.	The schedule relating to the General Deposit Account bearing No. 6000-0-0-18-0122-0 from the year 2018 to 2020 had been prepared and action will be taken to make available to Audit in future.	Evidence relating to values indicated in financial statements should be made available.

## 2. Financial Review

### 2.1 Imprest Management

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The sum of Rs.25,273,363 out of the imprest balance of Rs.43,437,909 unsettled to the Treasury as at 31 December 2020 had not been settled even up to March 2021.	The Imprest Account for 2020 has been settled by transferring the balance of Rs.25,273,363 in the Account No. 7041629 as at 31 December to the Imprest Account for 2021 through transfer papers in the month of March.	Action should be taken in terms of circulars issued by the Department of State Accounts.

### 2.2 Balances in Advance Accounts

The following deficiencies were revealed in accounting balances in advance accounts as at the end of the year.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The outstanding loan balance recoverable from 09 deceased officers had been Rs.1,636,743 and out of that, a sum of Rs.118,260 recoverable from one officer had been outstanding over a period of 05 years.	Necessary prompt action has already been taken to recover the said loan balances and action will be taken to settle outstanding loan balances in future.	The outstanding loan balance should be recovered in terms of Chapter XXIV of the Establishments Code and provisions of Budget Circular No.118 dated 11 October 2004.



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| (b) | There was an outstanding loan balance of Rs.1,157,797 recoverable from 11 officers who had been dismissed and had resigned and left the service and out of that, a sum of Rs.543,723 recoverable from 7 officers had been outstanding over a period of 05 years.   | Prompt action will be taken to recover loan balances recoverable from officers who had been dismissed and had resigned and left the service.   | -Do- |
| (c) | It was observed that action had not been taken even during the year under review to recover loan balances recoverable from officers as above in terms of Chapter XXIV of the Establishments Code and provisions of Budget Circular No.118 dated 11 October 2004 and follow up action thereon is at a weak level. | Future action will be taken in terms of Chapter XXIV of the Establishments Code and provisions of Budget Circular No.118 dated 11 October 2004 to recover outstanding loan balances. | -Do- |

### 2.3 Revenue Management

----- <b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) According to financial statements and reports on arrears of revenue, the total arrears of revenue including total arrears of tax revenue recoverable to the Department relating to manufacture of liquor, toddy and spirits as at 31 December of the year under review and penalty for delays relating thereto had been Rs.3,969.8 million. Action had not been taken in terms of Financial Regulations 128 (1) (h) and 128(2) (e) to recover the said arrears of revenue.	Action is being taken to recover arrears of excise revenue and penalty for delays thereon payable by appointing a committee comprising officers of this Department for holding discussions with payable institutions relating to recovery of arrears of excise revenue and penalty for delays thereon and for taking further action accordingly.	Action should be taken in terms of Financial Regulations 128 (1) (h) and 128(2) (c) and (e) to recover the said arrears of revenue.

- (b) The arrears of tax revenue over a period of 05 years relating to 05 liquor manufacturing companies as at the end of the year under review amounted to Rs.2,299.63 million. The initial tax included therein had been Rs.360.61 million, whilst penalty for delays therefor, was Rs.1,939.02 million. Further, legal action had not been taken in respect of arrears of revenue totalling Rs.1,217.12 million recoverable from 02 companies. Moreover, it had been informed that a request will be made to the Ministry for entering into an agreement between two parties for providing relief to a company from which arrears of revenue of Rs.204.97 million was recoverable. However, a progress on recovery of arrears of revenue totalling Rs.877.54 million from other two companies had not been reported.
- The amount of arrears of excise duty remained as at 31.12.2020 in the Department of Excise, Sri Lanka and penalty for delays computed therefor, and the progress of recovery of arrears of excise duty and penalty for delays have been revealed in attachments through the answer 2.1 (a) above.
- Action should be taken in terms of Financial Regulations 128 (1) (h) and 128(2) (c) and (e) to recover the said arrears of revenue.
- (c) In terms of Financial Regulation 128(2)(c), a half-yearly return showing the state of arrears of revenue should be furnished to Audit on or before the last day of the following month after closure of half-year once in every 06 months. Nevertheless, the return for the final half-year 2020 had not been received to Audit even by 31 January 2021.
- The return on arrears of revenue has been furnished to Audit at present. It is accepted that submission of the return on arrears of revenue for this year was delayed due to transfer of officers in charge of the subject. Relevant officers have been instructed to avoid such delays in future.
- Action should be taken in terms of Financial Regulation 128(2)(c).

- (d) As compared with the estimated excise revenue of Rs.130 billion of the year under review, the revenue collected by the Department (with arrears of revenue) had been Rs.120.9 billion representing 93.07 per cent of the estimated excise revenue.
- It is a well-known fact that the entire world was affected by Covid-19 pandemic by the year 2020. As such, it is pointed out that as manufactories had to be closed down due to unfavourable health condition prevailed in the country during and after March 2020 and sales had declined, expected targets could not be achieved. However, despite having a very low level of revenue in all other Government institutions which generate income, a high value such as 93.07 per cent was reported by this Department.
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## 2.4 Expenditure Management

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Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Even though provision totalling Rs.116.6 million had been made for 07 Objects, only Rs.83.8 million out of provision made relating to those Objects had been utilized. The savings of those Objects out of net provision ranged between 17 per cent and 92 per cent.	Planned activities could not be completed as expected due to Covid-19 pandemic prevailing in the country since March 2020, thus observing savings of provision in the range indicated.	Estimates of expenditure should be accurately prepared in terms of Financial Regulation 50.
(b) A sum of Rs.3.4 million out of provision of Rs.15 million made under Object 248-1-1-2106 in the year under review to install a computer software system for carrying out the process of tax computation accurately, had been spent for the purchase of an uninterruptible power supply (UPS). The savings of provision of Rs.11.6 million had been transferred to the Object 248-1-1-2108 in terms of Financial Regulation 66.	As the installation process of the computer software system could not be completed duly, vouchers for making payments therefor had not been received. As such, provision had been saved and as a result, those savings have been transferred to the Object 248-1-1-0-2108.	Provision made by the Annual Budget should be properly utilized for the relevant purpose.

## 2.5 Incurring of Liabilities and Commitments

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Allowance of Rs. 420,000 payable under Expenditure Head 130 to trainees who have been attached to the Head Office and 02 districts had been shown as liabilities under the Expenditure Head 248 of the Department of Excise.	Even though it had been shown under Expenditure Head 248 by mistake in preparing the Register of Liabilities, it had been brought to account by making payments under Expenditure Head 130.	Action should be taken in terms of State Accounts Guideline 05/2020.
(b) Twenty two liabilities totalling Rs.1,226,942 relating to 12 recurrent objects of the year under review had not been shown in the Register of Liabilities.	Twenty two liabilities shown could not be included in preparing the Register of Liabilities by mistake. Relevant officers have been briefed on the manner of preparing the Register of Liabilities accurately.	-Do-
(c) Any commitment or liability which had not been reported under Note (iii) in terms of paragraph 3.4 of State Accounts Circular No.271/2019 of 03 December 2019 should not be settled in ensuing year as previous year expenditure. Nevertheless, a total sum of Rs.4,898,437 relating to 15 instances, which had not been reported in such a way in the year 2019 had been settled in the year under review.	Relevant officers have been briefed on the manner of preparing the Register of Liabilities avoiding such shortcomings in future.	Action should be taken in terms of circular provisions.
(d) Five expenses totalling Rs.127,023 payable in the ensuing year had been shown in the Register of Liabilities of the year under review.	It had occurred by mistake and it is recorded to take action in a manner of avoiding such shortcomings in future.	Action should be taken in terms of State Accounts Guideline 05/2020.

## 2.6 Certification to be made by the Accounting Officer

Even though the Accounting Officer shall ensure the following matters according to provisions of Section 38 of the National Audit Act, No.19 of 2018, action had not been taken accordingly.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The Chief Accounting Officer and 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 any alterations as required for such systems to be effectively carried out. Further, the said reviews shall be in writing and a copy of the same shall be made available to the Auditor General. However, no statements had been made available to the Auditor General as to whether such reviews had been carried out.	The Department is functioning under proper management with an effective internal control system for proper financial control within the Department and it is accepted that reviews thereof for the year 2020 had not been carried out and statements thereon had not been made available in writing to the Auditor General. However, it is informed that periodic reviews are carried out for the year 2021 where necessary and the statement to be prepared in writing according to provisions of Section 38 of National Audit Act, No. 19 of 2018 has already been made available to the Auditor General.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.
(b) Although the Accounting Officer should ensure that all audit queries are answered within the specified periods as required by the Auditor General, audit queries had not been replied in terms of Paragraph 3.6 of the Report.	Four out of 06 audit queries had been directed to manufactories. All officers have been advised to avoid such delays in future. As replies have already been prepared, those will be furnished as soon as possible.	-Do-
(c) Even though the Accounting Officer shall ensure that an effective mechanism exists to conduct an internal audit, the said requirement had not been fulfilled according to observations in paragraph 5.1 of the report.	According to matters pointed out, action will be taken to remedy shortcomings in the internal control mechanism and in financial operational performance.	-Do-

**2.7 Non-compliance with Laws, Rules and Regulations**

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

Reference to Laws, Rules and Regulations	Audit Observation Non-compliance	Comments of the Accounting Officer	Recommendation
(a) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>	(i).F.R.104(4)	If a delay of more than 07 days is envisaged for making a full report on losses, the preliminary report should be sent in terms of FR 104 (3) and the full report should be submitted within three months from the date of loss in terms of FR 104 (4). Nevertheless, 05 instances, where action had not been taken accordingly relating to losses totalling Rs.748,907, were observed.	It is expected to rectify all shortcomings and errors by preparing the internal control system and it is kindly informed that action will be further taken to prepare internal circulars and to make officers aware thereon.
			Action should be taken in terms of F.R. 104(4).

(ii). F.R. 395(c)	Even though the bank reconciliation statement on the status of transactions of each month should be prepared before the 15 <sup>th</sup> of the following month, 05 reconciliation statements relating to 02 bank accounts of the year under review had not been prepared even by 20 January 2021, the date of audit.	All bank reconciliation statements relating to two bank accounts have already been prepared.	Action should be taken in terms of F.R. 395(c).
(b) Paragraph 07 of the Fiscal Policy Circular No. 01/2015 of 20 July 2015.	Even though the Commissioner General of Excise should submit monthly returns on Revenue Codes to the Director General of Fiscal Policy before the 10 <sup>th</sup> day of the following month, action had not been taken accordingly.	Action should be taken in terms of paragraph 07 of Fiscal Policy Circular No. 01/2015 of 20 July 2015.	Monthly revenue returns on revenue codes have already been submitted to the Department of Fiscal Policy. However, it is kindly informed that this return will be prepared after receiving monthly accounts summaries of the Treasury.
(c) Public Finance Circulars			
(i). Public Finance Circular No. 01/2014 dated 17 February 2014	Action Plans had not been prepared for recovery of revenue including monthly targets on excise revenue from liquor and tobacco of Rs.130 billion and Rs.35 million respectively estimated for the year under review, measures taken for reaching those targets and including indicators for measuring the progress of those measures.	Action will be taken to prepare Action Plans including monthly targets on estimated revenue for ensuing years, measures taken for reaching those targets and including indicators for measuring the progress of those measures. It is accepted that an Action Plan including Key Performance Indicators (KPI) for the year 2020 had not been prepared. However, it is reported that an Action Plan including KPI for the	Action should be taken in terms of Public Finance Circular No. 01/2014 dated 17 February 2014.

year 2021 had been prepared by rectifying the above situation.

- (ii). Part 1 of Public Finance Circular No.01/2020 of 28 August 2020 F.R. 756(6)
- Even though the report on Board of Survey for the year under review should be submitted to the Auditor General before 31 March 2021, reports on Annual Board of Survey relating to 105 locations including the Head Office of the Department, Offices of Commissioners of Excise, Offices of Superintendents of Excise, Special Operation Units and Excise Stations had been submitted only on 22 June 2021 with a delay of nearly three months.
- Board of Survey activities could not be completed due to reasons such as temporarily close-down of several regional offices of the Department due to the Covid-19 pandemic prevailing in the country and hindrances to make officers participate in those activities. However, Board of Survey activities are at the final stage at present and prompt action will be taken to furnish reports relating thereto.
- Action should be taken in terms of Part 1 of Public Finance Circular No.01/2020 of 28 August 2020 and F.R. 756(6)
- (iii) Paragraph 9 of Public Finance Circular No. 01/2020 of 28 August 2020 F. R. 31, F.R.880 and Cap 612 of Public Officers' (Security) Ordinance
- Even though it had been cited that every Head of the Department who is responsible for the security and custody of public money as the Accounting Officer, shall be required to give security, the Department of Excise had not taken action to obtain security accordingly even up to the year under review.
- Necessary action has been taken to deposit securities from officers in the Department, who will be required to give securities.
- Action should be taken in terms of paragraph 9 of Public Finance Circular No. 01/2020 of 28 August 2020 F. R. 31, F.R.880 and Cap 612 of Public Officers' (Security) Ordinance



## 2.8 Operating of Bank Accounts

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Action in terms of Financial Regulation 396(d) had not been taken in respect of 35 cheques valued at Rs.486,373, already issued but not presented for payment over a period of 06 months as per bank reconciliation statement for December of the year under review relating to the Bank Account No.7041628.	Action in terms of Financial Regulation 396 (d) will be taken expeditiously regarding cheques, exceeded 06 months from the date of issue.	Action should be taken in terms of Financial Regulation 396 (d).

## 3 Operating Review

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### 3.1 Vision and Mission

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
As objectives and key functions of the Excise Department also fall under the scope of the Ministry of Health and other institutions, the attention of the Committee on Public Accounts had been drawn towards the identification of scope of the Excise Department and revision of objectives and functions according to that scope. Even though a revised draft has been prepared by holding discussions with all staffs of the Department regarding their comments and proposals thereon, it has not been approved even up to now.	Future action will be taken to obtain approval therefor.	Action should be taken as per the directive given by the Committee on Public Accounts.

### 3.2 Non-execution of Functions

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) <b>Excise Licences for Tourist Vessels Operations</b></p> <p>The Department had taken action to issue F.L. 11 Excise licences (restaurant licences) to 8 vessels operated under a private company not registered under the Tourism Development Authority for “Tourist Vessels Operations” under tourism services. Accordingly, confirmations to the effect that 5 vessels had been registered with the Merchant and Shipping Company Limited had not been submitted. The period of two vessels out of the vessels that had submitted registration certificates, had expired on 11 February 2019 and 02 May 2019. It was observed in audit that these vessels were registered to transport merchant cargo under the Merchant and Shipping Company Limited. The Department had not formulated Rules in terms of Section 25 of the Excise Ordinance regarding the issuance of Excise licences for tourist vessels operations.</p>	<p>These licences have been issued as per the directives given by the Honourable Minister of Finance at the Enterprises Sri Lanka Programme held at the Weligama Town Hall, Matara on 23.03.2019 and 24.03.2019 and according to instructions of the Officer-in-Charge of Excise, Superintendent of Excise and the Assistant Commissioner of Excise.</p> <p>As new Excise licences are issued only for places recommended by the Tourism Development Authority for promotion of tourism, these licences were issued for the said vessels subject to approval of the Tourism Development Authority.</p>	<p>Rules should be formulated in terms of Section 25 of the Excise Ordinance relating to issuance of Excise licences for tourist vessels operations.</p>
<p>(b) <b>Protective Sticker Management System</b></p> <p>Affixing stickers on foreign liquor had been commenced from 20 July 2019 as per the Gazette Extraordinary No.2128/30 of 20 June 2019 for supply of protective stickers for liquor bottles and liquor bottle related products to increase Government revenue and to provide, establish and maintain a protective sticker management system and according to Rules specified in Excise Notification</p>	<p>Several leading liquor manufacturing companies had requested for arranging a methodology to use the system of printing stickers by digital technology instead of the system of affixing stickers. Accordingly, as liquor manufacturing companies could not use digital technology earlier, Excise Notification No.07/2021 was issued on 25</p>	<p>Action should be taken to execute projects within due periods.</p>

No.04/2019 issued by the Minister of Finance. The period for affixing stickers on local liquor had been extended up to 30 June 2021 by 04 Excise Notifications issued in the years 2019 and 2020 by the Minister of Finance. A revenue of Rs.10.87 million had been collected from the year 2019 up to the end of the year under review from sale of stickers for foreign liquor while an expenditure of Rs.5.98 million had been incurred relating to the said period for purchase of stickers. Even though the estimated expenditure for this project was Rs.1,782 million, the expenditure incurred so far was Rs.5.98 million representing 0.3 per cent. This project is currently implemented only for foreign liquor.

The necessity of repeating procurement activities arose due to the lapse of a period of 18 months to enter into agreements with companies for local liquor, pointing out the necessity of implementing digital technology system by leading manufacturing companies, obtaining approval of the new Cabinet and procurement activities were being carried out with the supplier for a protective sticker and accordingly, requirements such as revision of scope of agreed procurement activities and entering into new agreements should have been further executed.

February 2021 by the Ministry of Finance to enable affixing of stickers on local liquor using both digital technology and affixing, thereby directing that stickers should be affixed on locally manufactured liquor using the above systems with effect from 30 June 2021.

Moreover, it has been indicated that the specification of stickers could be changed on the agreement of both parties as per requirements of Tender conditions. As such, it is kindly informed that there is no necessity of a repeat procurement process.

(c) **Computer Software System**

Even though a sum of Rs.87.2 million was allocated by the Department from year 2016 to year 2018 through budgetary provision and supplementary provision to implement a computer software system relating to correcting the process of computing excise revenue of the Department, the project had not been implemented.

The updating of the computer software system is being currently expedited. Accordingly, objectives expected from the proposed computer software system will be achieved. Action should be taken to execute projects within due periods.

Expenditures of Rs.0.745 million and Rs.3.4 million had been incurred therefor in the years 2019 and in the year under review respectively and it was observed that expected objectives had not been achieved from the proposed computer software system for correcting the revenue computation process.

(d) **Integrated Computer Data System**

The Committee had instructed at the meetings of the Committee on Public Accounts held in the years 2019 and 2020 to establish a computer data system connecting the Department of Customs and the Inland Revenue Department and the expeditious implementation thereof and to implement an integrated programme through correspondence. Nevertheless, it was observed during the examination carried out thereon that the financial proposal of paying relevant fees for obtaining computer science engineering consultancy service of the University of Moratuwa under the novel feature of creating a computer data system by integrating the Excise Department with relevant institutions, had been at the evaluation level.

The modules to be considered for the consultancy service have been forwarded again for revision.

A committee has been appointed for identifying the specifications of the RASED system and those activities are in progress. Action has been taken to obtain the service of a procurement specialist of the Ministry.

Discussions have been commenced by the Department with the ICTA Institute for obtaining basic information technological infrastructure facilities.

Interchange of information of the Department with the RAMIS System of the Inland Revenue Department was commenced.

Action has been taken to enter into a Memorandum of Understanding relating to interchange of data of the Department of Customs with those of the Excise Department.

Action should be taken to execute projects within due periods.

(e) Regional offices were being constructed by private contractors under the supervision and monitoring of the Department of Buildings after releasing provision to them and it was observed that no financial progress whatsoever had been achieved in the Ampara Construction Project during the year under review as compared with the expenditure of the year 2019. Even though it was due to be

It is kindly informed that in submitting information, expeditious action will be taken through internal circulars to notify officers to submit correct information and to be attentive thereon.

Action should be taken to execute projects within due periods.

completed on 15 January 2018, action had not been taken to complete it even after a lapse of 3 years.

Moreover, the Pedro Point and Mullaitivu Construction Projects should have been completed on 14 April 2020 and 08 February 2020 respectively. However, the financial progress thereof as at the end of the year under review remained at a weak level. A Technical Officer had not been recruited even up to the end of the year under review for the purposes of supervising and monitoring of the aforesaid projects on behalf of the Excise Department.

(f) **Lands and Buildings owned by the Department**

As per the Register of Lands, the Excise Department owned 43 lands on which offices were located and matters on obtaining clear titles relating to 23 lands including the land on which the Head Office of the Department is located and vesting of state lands had not been finalized even up to now.

In vesting the land on which the Excise Head Office at Rajagiriya is located, it is expected to finalize the matters of vesting immediately after the process of vesting is carried out by the Ministry of Lands. Expedite action will be taken to finalize the said matters after making relevant inquiries.

Necessary action should be taken for obtaining clear titles relating to lands and vesting of state lands.

Obtaining clear titles relating to lands of regional offices and vesting of state lands have been commenced. However, delays due to Covid 19 pandemic and delays in sections beyond the control of the Excise Department occur. It is expected to finalize these matters before 31.12.2021.

(g) Particulars of increase/deficit of the net Excise Revenue collected from year 2014 to year 2020 were as follows.

It was previously reported to you that the excise revenue increased unusually based on the change occurred in the year 2016 in the Government Tax Policy. This situation has changed after year 2017.

The Revenue Accounting Officer should prepare estimates of Revenue as accurately as possible in terms of Financial Regulation 128(2)

Year	Excise Revenue Rs. Billions	Difference in Percentage
2014	69.08	4.6
2015	105.2	52.2
2016	120.2	14.2
2017	113.2	(5.8)
2018	113.8	0.5
2019	115.3	0.3
2020	120.9	4.8

(h) **Non-charge of Tax according to Tobacco Tax Act**

Even though a tax shall be levied and charged from every cigar, beedi and every kilogram of pipe tobacco manufactured in Sri Lanka in terms of Section 2 of the Tobacco Tax Act, No.8 of 1999, it was observed at the audit test check carried out relating to cigar and beedi which are manufactured, that such a tax is not charged. Nearly 536 beedi and cigar manufacturers have been registered with the Department by the year 2020 and the production of beedi and cigar in those factories was approximately 16 billion units during the preceding 4 years. Only an application fee, beedi production fee, a store permit fee and a relevant tax for imported tobacco is charged from those factories. It was observed during an audit of a sample of 30 factories selected in the preceding year that the annual beedi production was 31,348,500 units. Accordingly, it was observed that a large amount of tax revenue was annually lost to the Government in considering the 536 manufacturers registered in the year under review.

The Ministry of Finance has been notified by No.ED/2019 of 26.08.2019 that it is recommended as appropriate to charge a tax on beedi and cigars manufactured in Sri Lanka. The Secretary has instructed the Director General of the Department of Fiscal Policy to take necessary action. A letter has been again forwarded on 15.10.2020. As such, it is expected to take necessary action in terms of Section 2 of the Tobacco Tax Act on the instructions of the Department of Fiscal Policy.

Action should be taken in terms of Tobacco Tax Act, No.8 of 1999.

- (i) It was observed during the Comments have not been made. Action should be

examination carried out on the current position relating to measures to be taken to implement provisions stipulated in the Tobacco Tax Act, that the revised Tobacco Tax Order had been forwarded to the Legal Draftsman on 05 July 2018. The Legal Draftsman's Department had informed the Director General of the Department of Fiscal Policy on 02 September 2019 that the Tobacco Tax Act currently in force should be amended to make the said amendments as no provisions are stipulated in the Tobacco Tax Act, No.08 of 1999 to make amendments. However, no progress thereon could be observed even up to the year under review.

taken in terms of Tobacco Tax Act, No.8 of 1999.

- (j) It is observed that the Excise Department is regulating only the cigarette consumption. It has also been found that the smoke inhaled by beedi consumption is harmful to the body and it is a cause for chronic diseases. Moreover, it has been identified that this will adversely affect the productivity of the labour force and it is observed that it is necessary to pay attention towards regulation of beedi production as well.
- All Assistant Commissioners of Excise, all Superintendents of Excise and all Officers-in-Charge of Excise have been instructed by a letter to pay close attention in this regard.
- It is kindly informed that the Excise Department strives towards minimizing health risk by tobacco related products through consumption, monitoring and assessment of tobacco products and alcohol products in terms of National Authority for Tobacco and Alcohol Act, No.27 of 2006.
- Action should be taken in terms of Tobacco Tax Act, No.8 of 1999.

### 3.3 Annual Performance Report

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The Annual Performance Report had been presented in Parliament on 18 June 2021 as per the format indicated in Guideline No.14 issued by the Department of Public Finance in terms of paragraph 10.2 of Public Finance Circular No.2/2020 of 28 August 2020.

### 3.4 Procurements

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The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Three Procurement Plans had been prepared for the year under review. The procurements of 07 Capital Objects and 08 Recurrent Objects of the final quarter therein had not been completed up to the end of the year under review.	In preparing the progress of the Procurement Plan, it has been erroneously mentioned that activities of all those Objects were being executed. The progress of the accurately prepared Procurement Plan is submitted herewith and the relevant officers were instructed to avoid such errors hereafter.	Prescribed activities should be completed as per Procurement Plans and the Time Schedule.
(b) The necessity of 814 sets of instruments for testing liquors and 138 measuring cylinders relating to various ranges in 3 Divisions of the Head Office of the Excise Department, 11 offices of Assistant Commissioners of Excise, 24 offices of Superintendents of Excise and 52 Excise stations, which was an activity included in the Procurement Plan, had been identified and approval had been granted for purchase of these instruments in February of the year under review. However, purchases had not been made even up to the end of the year under review due to delays in procurement activities.	Procurement activities were carried out for purchase of instruments for testing liquors and quotations have been called therefor under shopping method. It was not possible to make purchases as samples were not submitted as a result of the countries importing those goods were locked down due to Covid 19 pandemic and due to lack of stocks of goods. When inquiries were made from time to time, the above reason was given. The purchase of these instruments were delayed as a situation has arisen due to Covid 19 pandemic in which goods could not be imported from countries where manufactories are located. It is a matter beyond the control of the Department and it is kindly informed that action is taken to give priority for purchase of these instruments by making frequent inquiries.	In respect of spirits obtained from fermentation, it is compulsory that the Excise station be equipped with standard sets of instruments in determining the percentage of spirits and the attention of the Department should be immediately drawn therefor.



### 3.5 Losses and Damages

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Out of the loss of Rs.707,155 occurred in the preceding year relating to the accident of vehicle No.PE-0677, only a sum of Rs.536,771 was recovered from the insurance company and action had not been taken to recover the sum of Rs.170,384 unrecovered from the guilty party or to write it off. No entry whatsoever had been made thereon in the Statement of Losses and Waivers.	It is expected to claim indemnity from the insurance company relevant to vehicle No.EP PC-1010 relating to the accident immediately after conclusion of legal proceedings. It is further expected to finalize relevant matters by taking speedy and proper follow up action.	Action should be taken in terms of Financial Regulations.

### 3.6 Unanswered Audit Queries

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Fifteen audit queries had been issued for the year of accounts - 2020 and a period between 3 and 6 months had been taken to reply 06 audit queries out of them. Even though they had been issued before 06 months, replies had not been submitted for 06 queries up to now.	Out of these 06 audit queries, 04 alone had been forwarded to manufactories. It is stated that this situation arose as a result of annual transfer of officers in manufactories and the difficulties faced in getting down relevant officers and the inability of officers reaching respective stations due to Covid pandemic. Replies to the said queries have been received by now and they will be submitted to you shortly. Furthermore, it is kindly informed that all officers were advised to avoid such delays hereafter.	The Accounting Officer should take action to forward replies within the due period.

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| <p>(b) In the Customs investigation carried out on a company who had used illegally imported spirits, it had been indicated by Query No.SIN/A/PI/201902 of 28 August 2020 to give further written explanations relating to the audit query directed by the Special Investigation Unit of the National Audit Office on the importation of 518,600 litres. Nevertheless, replies therefor had not been submitted even up to now.</p> | <p>As replies for this audit query too is prepared, it will be submitted shortly.</p> | <p>The Accounting Officer should take action to forward replies within the due period.</p> |
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### 3.7 Management Weaknesses

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) The Assistant Provincial Commissioner of Excise and Superintendents of Excise should obtain a sample from bottles of toddy kept for sale in their province at least once in three months and forward them to the Government Analyst and obtain a report thereon. However, action had not been taken from October 2017 to the year 2020 to obtain samples from Nos.1 and 2 toddy taverns in Ratnapura and to forward them to the Government Analyst.</p>	<p>Action is being taken presently to obtain reports by forwarding toddy samples to the Government Analyst in terms of prescribed regulations.</p>	<p>Action should be taken in terms of laws and rules.</p>
<p>(b) Two persons who had functioned as co-licensees had renewed a F.L. 4 licence from the year 2013 up to the year 2017. The licence was issued to one person with effect from the year 2018 through an affidavit. However, only a sum of Rs.200,000 had been charged without taking action to charge the licence fee amounting to Rs.15,000,000 as per the Excise Notification No.983 of 15 December 2015. It has been mentioned in the reply made to the audit query directed in this regard that a sum of Rs.1,300,000 had been recovered as per the Excise Notification No.926. Accordingly, the amount to be charged further was Rs.13,500,000.</p>	<p>The licensee was notified to pay the relevant sum and if failed, the licence will not be extended. However, the licensee had got the licence extended by filing a case in the Court of Appeal under Appeal Court Writ Application 187/2021. As such, it is kindly informed that further action will be taken according to the judgement.</p>	<p>Action should be taken to charge the prescribed fee in terms of Excise Notification No.983.</p>

(c) **Raids carried out**

It was observed that the number of raids carried out by the Excise Department during the year under review and three preceding years relating to objectives and functions assigned for achievement by the Excise Department, is gradually on the decrease. Moreover, it was observed that the number of raids carried out under the Poisons, Opium and Dangerous Drugs Ordinance, Tobacco Tax Act, National Authority on Tobacco and Alcohol Act had been decreased by 3,227, 1,934, and 654 representing 39 per cent, 50 per cent and 44 per cent respectively in the year under review as compared with the preceding year.

As the data indicated herein should be checked over again and the relevant officers do not report to duty at present due to island wide travel restrictions, time is required in submitting replies.

Action should be taken to control illegal affairs relating to liquor, tobacco and alcohol and poisons, opium and dangerous drugs in terms of powers vested by relevant Acts.

(d) Significant observations made during the performance audit carried out to evaluate the efficiency in the regulation of the Excise Department relating to 6 manufacturing companies out of 23 licenced liquor manufactories with a very low contribution to the Government revenue, are summarized and given below.

No comments have been made.

Recommendations should be made on relevant observations.

(i) Mismatches between registers, deleting and striking off of information in the books of manufactories, non-reporting of manufacture of arrack as compared with the quantity of spirits used in manufacture, quantity changed and quantitative differences on the quantity received to the changed lager in changing into lagers and observation of differences in the permits of transporting spirits and the documented quantity.

(ii) In distilling from different lagers, matters such as failure in taking action to obtain reports in a specific number of turns to test whether they are up to standard by obtaining samples, forwarding them to the Government Analyst and obtaining analysis reports, delay in forwarding obtained samples to the Government Analyst and difference between the strength mentioned in reports of the Government Analyst and the strength mentioned in the label relating to 8 distilleries/manufactories subjected to audit, were observed.

(iii) It was confirmed by Police investigations and Customs investigations carried out during the past period that illicit liquor manufactured locally using spirits imported without excise and custom duty is circulating freely in the market.

(iv) Officers should play a leading role in securing the Government tax revenue recoverable from manufactories and analyze the use of labels, lids and bottles as well as the correlation between the product and raw materials. Moreover, necessary steps have not been taken to establish a laboratory within the Department to facilitate purposes of analysis.

Even though 19 recommendations to be implemented relating to above observations were pointed out by reports, measures taken therefor by the Department were not reported to Audit.

#### 4. Achievement of Sustainable Development Goals

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The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Even though 37 targets to be achieved relating to 15 objectives of the Department in terms of the Sustainable Development Agenda 2030 of the United Nations Organization, were identified in the year under review, they had not been adapted precisely with the objectives and functions of the Department.	The Excise Department of Sri Lanka has taken action in the year 2020 to line up its mission, strategies and activities for 15 of the 17 sustainable development goals. However, in studying further, the Excise Department of Sri Lanka has clearly identified 04 sustainable development goals and taken action accordingly to line up the Action Plan of year 2021 and the specific role. It is kindly informed that action was taken for the above development and to precisely identify the role of all divisions accordingly after realizing that	Action should be taken to identify objectives, allocate provision for achieving targets, include them in the Action Plan and implement thereafter.

implementing all 17 sustainable development goals is impractical to any institution within Sri Lanka.

- (b) In examining the progress of the year under review, no progress was reported in three targets relating to three objectives. Moreover, the progress of nine targets relating to seven objectives was at a level as low as 50 per cent.
- Divisions such as Revenue Operations Division, Legal Division, Logistics Division and Human Resource Division were seriously affected by the Covid 19 pandemic which prevailed throughout the year from 18 March 2020. This situation adversely affected the research activities of the Studies and Research Division, training courses of the Human Resource Division and Legal Division as well.
- Expected progress should be achieved.

## 5. Good Governance

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### 5.1 Internal Audit

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Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
<p>The Internal Audit Unit had pointed out its observations relating to the year under review by 8 queries. Accordingly, the measures taken by the Department on correcting deficiencies in the system of internal control and financial and operating performance had not been reported to Audit.</p>	<p>Minimization of weaknesses in internal control pointed out by directing relevant reports to respective divisions with regard to audits carried out by the Internal Audit Unit relating to the year under review and correction of deficiencies in financial performance are carried out through relevant Divisional Heads. Moreover, solutions for problems thereon are discussed and the progress of measures taken therefor is reviewed at Audit and Management Committee meetings held quarterly at the Department.</p>	<p>Necessary steps should be taken to correct deficiencies and to overcome weaknesses in systems of control.</p>

## 6. Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) In comparison of the approved cadre with the actual cadre, vacancies in 316 posts existed as at the end of the year under review.	Promotions have been made on the approval of the Public Service Commission with effect from 29.03.2021 for vacancies of 02 posts of Commissioner of Excise, 02 posts of Deputy Commissioner of Excise and for posts of Assistant Commissioner of Excise.	Action should be taken to recruit approved cadre as per requirement.
(b) A period from 1 to 3 years had lapsed as at 31 December 2019 in taking disciplinary action relating to 20 out of 48 officers who were interdicted on various reasons. Nevertheless, the relevant disciplinary inquiries had not been concluded as yet.	Out of the 48 officers who were interdicted, disciplinary inquiries of all officers were concluded except for the officers against whom cases were filed in the Commission to Investigate Allegations of Bribery or Corruption and the High Court.	Action should be taken to complete disciplinary inquiries properly.