

## **Excise Rewards Fund of the Excise Department - 2023**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Excise Rewards Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Section 58 “a” of the Excise Ordinance No. 08 of 1912 as amended by Excise Amended 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 reported to Parliament appear in this report. In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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

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

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

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

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

## **1.5 Audit Observations Related to the Preparation of Financial Statements**

### **1.5.1 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though purchases of property, plant and equipment amounting to Rs. 3,771,335 in the cash flow statement, and Rs.11,707,328 transferred to depreciation reserve fund should have been indicated under investment activities, the amounts had been indicated under operational activities.	That will be corrected in future	Action should be taken according to Sri Lanka Public Sector Accounting Standards.
(b) Even though lands and buildings should be identified separately and accounted as per Sri Lanka Public Sector Accounting Standards - 07, lands and buildings amounting to Rs.47,134,000 in the statement of financial position had not been identified separately.	Action will be taken to estimate and indicate the lands and buildings in the financial statements after they are formally acquired.	-Do-
(c) Even though the value of the building should be recognized and distributed on a systematic basis throughout its useful life for depreciation adjustment according to Sri Lanka Public Sector Accounting Standards - 07, it had not been depreciated till the end of the year under review.	After the valuation, depreciation will be calculated for the cost of the building in the future.	-Do-
(d) Even though the gross carrying value, accumulated depreciation and net carrying value of assets must be disclosed in the schedule of property and equipment according to Sri Lanka Public Sector Accounting Standard No. 07, the net capacity values of 08 items of asset categories including buildings, furniture, office equipment totalling to Rs.101,798,966 had only been disclosed. The gross carrying value of property, plant and equipment as at the closing date of the year under review had been Rs. 190,995,393.	That will be corrected in the future.	-Do-

### 1.5.2 Going Concern of the Fund

Audit Observation	Comment of the Management	Recommendation
(a) When comparing the net assets of the Excise Rewards Fund in the year under review and 04 preceding years, it was observed a deterioration in the financial result of the Fund from 2019 to 2021 and consequently, even though it was observed a considerable deterioration in the net assets gradually in such years also, it had gradually grown in the preceding year and in the year under review. Even though the said growth percent in the preceding year was 19 percent, it was 12 percent in the year under review.	Agree with the observations	The action should be taken to enhance the operational surplus by getting steps to increase the income of the Fund.
(b) When comparing the balance of Deposit Account of the Fund existed in the Treasury in the year under review and 04 preceding years, it seemed deterioration in 2019 and 2021. A notable growth had occurred in the previous year and in the year under review. Even though said growth percent was 34 percent, it became 19 percent in the year under review.	Agree with the observations	The measures should be taken to grow the balance existing in the balance of Deposit Account of Fund in accordance with the Excise Notification No.818.

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

Reference to Law, Rules & Regulations	Non-compliance	Comments from the Management	Recommendation
Paragraphs 17 (a) I and II of Tobacco Tax Act No.8 of 1999	Even if a Tobacco Rewards Fund should be established with 25 percent from Cigarette Penalty Amount received, no action had been taken to establish such a fund from the start date of the fund unto the end of the year under review. The yearly allocations made to date remained as a long-term liability of Rs. 24,363,751 to be paid to the Tobacco Reward Fund without being invested.	The discussions with the Department of Legal Draftsmen and formulating the relevant amendments have been started in order to include new amendments required for the orders related to the Tobacco Tax Act No. 08 of 1999. The actions will be taken under that to draft the proposals regarding the fund related to the Tobacco Tax Act, and the proceedings will be done to establish the Tobacco Fund subsequent to the completion of those activities.	The actions should be taken to establish the Tobacco Rewards Fund.

## 2. Financial Review

### 2.1 Financial Results

The operational result of the year under review was a surplus of Rs. 36,968,594 and the surplus of the preceding year corresponding to that value was Rs. 48,444,530. Accordingly, a decline of Rs. 11,475,936; or 23 percent, was observed in the financial result. Even if the arbitration fees and cigarette penalty income were increased by Rs. 13,744,078; that is 8 percent. The increase of the expenses; including rewards amount payments and depreciations by Rs. 25,220,014 or 22 percent, had mainly caused this decline.

## 3. Operational Review

### 3.1 Management activities

Audit Observation	Comments from the Management	Recommendation
(a) The actual income of the fund in the year 2023 was Rs.173,290,859 of which 97 per cent was represented by settlement fee income. According to the budget document of the year under review, the income of settlement fee was estimated at Rs.150,000,000. It was observed that it had been underestimated by Rs. 25,000,000 or 17 per cent compared to the settlement fee income estimated at Rs. 175,000,000 in last year's budget, However, the settlement fee income of Rs.162,558,319 had been earned in the year under review.	Due to the fact that the estimated income of the year 2022 is not received as estimated, in the year 2023, Rs.25 million had been underestimated compared to the year 2022.	Revenues should be forecasted accurately and estimates should be prepared.
(b) During the year under review, Rs.23,285,638 was paid to the officials who made direct seizures and Rs.66,180,256 for rewards to the entire staff from the fund. The representation of rewards money payments to officers directly participating in the reception was a low value of 26 per cent and the payment of rewards to the entire staff was 74 per cent.	In the years before the year 2023, all officers of the department had been paid incentives at the rate of 75% of the basic salary and below using the money of the Excise Rewards Fund and due to the decrease in the balance of the fund, only 12% of the basic salary per month has been paid in the year 2023.	Payment of benefits should be done according to the provisions mentioned in Excise Notification No. 818.

### 3.2 Performance

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>As per the Action Plan of the Department of Excise of the year under review, although the Department of Excise had planned to carry out 4,000 Technical crime raids, 5,499 raids had been carried out. Out of them in 10 excise places the progress of reaching targets had been low and although annual targets in 10 excise places had surpassed the annual targets, the raid targets that had been given were less. Further, according to the analysis of penalty money of 1,559 raids, 65 per cent of the raids were related to violation of general conditions.</p>	<p>The existing lack of officers, the conditions occurred limiting the investigating activities and the representations made to reduce the raid targets had made the number of raids to take a lower number than expected.</p>	<p>Attention should be paid towards improving the quality of raids.</p>

### 4. Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>Since it was observed that a variance existed ranging from 8 to 114 per cent related to 02 revenue objects and 20 to 100 per cent variance related to 09 expenditure objects, it was not observed that the budget had been used as an effective management control tool.</p>	<p>Non-receipt of money in estimated amounts to incur the expenditure of initial quarters and non-production of vouchers for making payments. That it was not possible to incur expenditure due to non-receipt of considerable amount of income to the Fund</p>	<p>Preparation of realistic revenue estimates and using of the budget as an effective management control tool.</p>