Excise Reward Fund - 2025

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Excise Reward Fund for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 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 material accounting policy information 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 the provisions of the National Audit Act No. 19 of 2018 and Excise Ordinance No.08 of 1912. My comments and observations which I consider should be report 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2025, 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

I expressed qualified opinion 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 skepticism 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 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 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.

Audit scope 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 Observations on the preparation of the Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with the reference to particular standard	Management Comment	Recommendation
The financial statements of the Fund prepared on cash basis up to the preceding year had been prepared on accrual basis in the year under review and accordingly, the balances receivable and payable had been accounted after recognizing. However, even though the financial effect of this difference made in the accounting policy should be accounted retrospectively and disclosed in the financial statements as per paragraph 28 of Sri Lanka Public Sector Accounting Standards No.03, no action had been taken accordingly.	It is reported that there is no objection for including the paragraph in the report.	The changes in the accounting policies should be accounted retrospectively and made required disclosures in compliance with the Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The cigarette compoundable fee of Rs.18,150,000 charged within the year under review and receivable compoundable fee of Rs.900,000 for offences in relation to beedi as at 31 December 2025 in terms of Tobacco Tax Act No.08 of 1999 had been shown as excise compoundable fee receipts not as cigarette compoundable fee receipts under Excise Reward	It is reported that there is no objection for including the paragraph in the report.	Excise compoundable fee receipts and cigarette compoundable fee receipts should be accurately identified and should be accounted as per the specified percentages to relevant

	Fund in the statement of financial performance. Accordingly, the surplus of the year under review had been understated by Rs.1,815,000 due to allocation of Rs.6,352,500 or 35 percent from Rs.18,150,000 charged as cigarette compoundable fee in terms of Tobacco Tax Act for the payment of rewards to the officers carried out raids instead of allocation of Rs.4, 537,500 or 25 percent from the compoundable fee for Tobacco Reward Fund. Moreover, even though 75 percent from such receipts or Rs.13,612,500 should be credited to the Government revenue under the Tobacco Tax Act, only 15 percent from said value or Rs.2,722,500 had been credited to the Government revenue due to consideration it as an excise compoundable fee.		fund and the Government revenue.
(b)	Even though the compoundable fee had been shown as Rs.176,228,010 pertaining to the year in accordance with the statement of financial performance of Excise Reward Fund for the year ended 31 December 2025, such value was only Rs.156,088,510 as per the calculation of the audit The annual compoundable fee revenue had been overstated by Rs.20,139,500 in the statement of financial performance.	It is reported that there is no objection for including the paragraph in the report.	The revenue pertaining to Excise Reward Fund should be accurately recognized and the step should be taken to account.
(c)	Though the payable reward balance as at 31 December 2025 had been shown as Rs.63,762,725 as per the financial statements of Excise Reward Fund, that balance should be Rs.63,112,011. Therefore, payable reward balance had been overstated by Rs.650,714 in the financial statements.	It is reported that there is no objection for including the paragraph in the report.	The reward amount payable at the end of the year should be accurately identified, verified and accurately accounted.
(d)	Even though 25 percent from the proceeds of sale of forfeited to the state under section 15(2) of Tobacco Tax Act No.08 of 1999 shall be credited to the Reward Fund to be established under said Act, Rs.47,339,944 which is 25 percent from Rs.189,335,775 collected in the years 2024 and 2025 by auctioning the forfeited to the state by the Department of Excise had not been credited to Reward Fund by the name of a Fund to be established under said Act.	It is reported that there is no objection for including the paragraph in the report.	In terms of the provisions of the Tobacco Tax Act No.08 of 1999, the action should be taken to credit the percentage to be credited to the Fund from the proceeds of sale of forfeited to the state.

(e)	Even though the action had been taken to remove the fixed assets with net value of Rs.97,144,601 and depreciation reserve fund balance of Rs.42,103,687 at the end of the year under review on a decision of Excise Reward Fund Committee, any disclosure in relation to that matter had not been made in the financial statements of the year under review.	It is reported that there is no objection for including the paragraph in the report.	The action should be taken to adequately disclose the relevant all important transactions and their financial effects for presentation the financial statements in true and fair manner.

1.6 Non-compliance with rules, laws, regulations and management decisions

	Reference to laws, rules and regulations	Non-compliance	Management Comment	Recommendation
(a)	Paragraphs 1 and II of 17(a) of the Tobacco Tax Act No.08 of 1999	No action had been taken to establish a Tobacco Reward Fund by using 25 percent of cigarette fines received under Tobacco Tax Act even at the end of the year under review and it was observed that the funds had not been managed in compliance with the provisions of the Act owing to accounting of money to be allocated under Excise Reward Fund.	It is reported that there is no objection for including the paragraph in the report.	The action should be taken to immediately establish Tobacco Reward Fund and allocate money related to that and account it in terms of the provisions of the Tobacco Tax Act No.08 of 1999.
(b)	Paragraphs 05 and 07 of the Excise Notification No.818	No action had been taken to pay the reward money of Rs.69,969,604 payable to the officers such as officers who handle the cases and staff officers who inspect the raid works or directly join to the technical crime reports and assist the office work, typists and officers in parallel services in relation to the year under review.	It is reported that there is no objection for including the paragraph in the report.	The action should be taken in compliance with the legal provisions specified in the Excise Notifications.

2. Financial Review

2.1 Financial Result

The financial result of the year under review amounted to a surplus of Rs.88,766,006 and corresponding surplus in the preceding year amounted to Rs.87,408,658. Therefore, an improvement of Rs.1,357,348 of the financial result was observed. The reasons for the improvement are growth of compoundable fee and further non-allocation of the provisions from depreciation fund for fixed assets.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
It had failed to duly carry out the activities estimated from the amount of Rs.16,250,000 included in the Annual Action Plan prepared by Excise Reward Fund for 2025 even at the end of the year under review.	It is reported that there is no objection for including the paragraph in the report.	The action should be taken to prepare the Annual Action Plan and Budget after identifying the priorities and based on that and the action should be taken to carry out the expected activities to be performed through relevant Action Plan within the year as specified.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Based on the information received to the audit for first 03 quarters in the year 2025, 05 Excise Stations which had not achieved the relevant raids by 100 percent or had not carried out any technical crime raid had achieved its own technical crime raids target in the last quarter of the year in the inspection of the progress of the achievement the technical crime raids target provided to each Excise Station.	It is reported that there is no objection for including the paragraph in the report.	A timely review should be carried out in relation to actual raids and targeted raids to be carried out by Excise Stations.
(b)	It was observed that number of raids done in the last quarter was in a higher range from 250 percent to 1050 percent compared to the average performed in the quarter when comparing number of technical crime raids carried out and average number of raids in one quarter within that period with number of raids carried out in the last quarter of the year by 15 Excise Stations for first 03 quarters in the year 2025. It was not satisfied in the audit in relation to the methodology for carrying out such raids and the process for providing the targets to the Excise Stations owing to	It is reported that there is no objection for including the paragraph in the report.	The progress of the raid activities of Excise Stations should be quarterly reviewed and the reasons for variances prevailed between target and actual performance should be identified and required control measures should be taken.

	performing the technical crime raid targets given for the year 2025 for 20 Excise Stations mentioned in above (a) and (b) observations within one quarter.		
(c)	In the examination of the progress on the fulfillment of the technical crime raid targets, many Excise Stations had carried out raids exceeding the targets provided for the year 2025 and the number of technical crime raids performed by 06 Excise Stations had decreased between 25 percent to 32 percent as compared with the year 2024.	It is reported that there is no objection for including the paragraph in the report.	The performance of technical crime raids of Excise Stations should be timely reviewed and the reasons for the decrease of raids should be identified and necessary action should be taken for that.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Management Comment	Recommendation
In terms of section 40(3) of the National Audit Act No.19 of 2018, no internal audit had been conducted on the activities of the Excise Reward Fund during the year under review.	It is reported that there is no objection for including the paragraph in the report.	The action should be taken to carry out the internal audits having identified the risk areas of the Excise Reward Fund.

4.2 Budgetary Control

Audit Observation	Management Comment	Recommendation
It was observed that the budget prepared for the year had not been used as an effective management control tool due to the observation of the variances of 02 revenue items in a range of 2 percent to 17 percent and variances of 08 expenditure items in a range of 15 percent to 100 percent in comparing budgetary figures and the actual figures in the year under review.	It is reported that there is no objection for including the paragraph in the report.	The annual budget estimates should be prepared on the forecasts based on the accurate data.