

## **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 2019 comprising the statement of financial position as at 31 December 2019 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. In terms of Section 11(1) 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 30 June 2020. In terms of Section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 24 July 2020 to the Accounting Officer. This report which should be read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of 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 prepared in terms of Provisions of State Account Circular bearing No. 271/2019 of 03 December 2019 give a true and fair view of the financial position of the Excise Department of Sri Lanka as at 31 December 2019, and of 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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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 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statement**

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The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer and the Accounting Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16 (1) of the National Audit Act, No. 19 of 2018, the Department 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.

In terms of 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 exists in the Department of Community Based Corrections and carry out periodic reviews to monitor the effectiveness of such system 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, 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

As required by Section 6 (1) (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

- (a) The financial statements of the year under review are consistent with the preceding year.
- (b) Recommendations pointed out in my report on the financial statements submitted in the preceding year in relation to observations included in paragraph 1.6.7 of this Report had not been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Statement of Financial Performance

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting officer</b>
An amount of Rs. 1,168,500,000 had been stated as total net provisions for recurrent expenditure and an amount of Rs. 936,801,576 had been stated as the total recurrent expenditure in the expenditure summary mentioned in Format ACA-2 according to the programmes in the financial statements. According to Format ACA-2 (ii), they were indicated as Rs. 1,159,800,000 and Rs.928,392,355 respectively.	Taking action to enter accurate data.	Pointing out of the shortcoming is appreciated. This has occurred as the value of the provisions and the value of the expenditure for the year had not been added by mistake.

### 1.6.2 Statement of Financial Position

The Following shortcomings were observed.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting officer</b>
(a) Even though Rs.107,562,052 had been spent for the acquisition of capital assets as per the Expenditure Head under the capital expenditure during the year under review, it had been stated as Rs.56,420,700, purchases under non-financial assets (ACA-6).	Taking action to state the assets under construction as work in progress.	Even though an amount of Rs.107,562,052 had been stated under the acquisition of capital assets, assets, which had been under construction, were also included in that amount. However, the amount of Rs.56,420,700, which was the amount stated under ACA-6 was the actual value of purchase.

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| (b) | Journal entries, related to adjusting the balance of Rs.982,032,375, non-financial assets as at 31 December of the previous year, as Rs.1,371,338,801 by 31 December in the year under review had not been submitted for audit. | Taking action to submit journal entries related to the adjustments. | An amount of Rs.1,371,338, 801, which was the accurate balance as at 31 December 2018, had been included in the Accounts for the year 2019 as non-financial assets since the final accounts prepared in the year 2018 had shortcomings. Those values are similar to the values indicated in the Treasury print outs. |
| (c) | Buildings and constructions valued at Rs. 45,567,770.77 during the year under review had not been stated in the statement of financial position as non-financial assets under the value of work in progress.                    | Taking action to indicate under the accurate classification.        | In the preparation of ACA-6, this value had been indicated as work in progress - buildings and constructions, and final accounts have been prepared by including, the grand total stated in ACA-6, in the statement of financial position.   |

### 1.6.3 Cash Flow Statement

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Audit Observation	Recommendation	Comments of the Accounting officer
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The amount of Rs. 75,210,584, which was the total of Rs.29,735,446, the opening balance of the Imprest Account for the year and the amount of Rs. 45,475,138, the difference of the balance of the Departmental books and the balance of the Treasury printouts of the imprest account had been indicated as non-income receipts.	Taking action in accordance with the State Accounts Circular No. 271/2019.	Authorizatio had been made for the final balance of the Account No. 7041629 as at 31 December as an imprest receipt in the year 2019 and grand total of the amount of Rs.45,475,138, the total of the final cheque sent to the General Treasury on 31 December 2019 and the value of Rs.3,355,000 mistakenly included in the CIGAS Programme and the amount of Rs.29,735,446 had been stated as non-income receipt.

#### 1.6.4 Reconciliation Statement on Advance Account to Public Officers

The following shortcomings were observed in the Reconciliation Statement of Advance Accounts to Public Officers.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) There were 09 instances of inconsistencies between the loan balances mentioned in the Individual Balance Schedule submitted along with the reconciliation statement related to Loan and Advance Register (CC - 10) and the advance account.	Taking action to record the loan and advance register accurately.	I kindly inform that action will be taken to rectify the shortcoming in this year.
(b) The loan balance of an officer transferred was Rs.194,703 as per the loan and advance register (CC 10) and the balance was stated as Rs.209,885 at the time of entering the balance to the individual balance schedule of the reconciliation statement.	Taking action to prepare the loan and advance register accurately.	Loan balance of this gentleman was mentioned in the individual balance list by mistake and I would like to inform that action would be taken to rectify the mistake.

#### 1.6.5 Imprest Balance

The following shortcomings were observed in accounting the imprest balance.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) According to the consolidated trial balance of the Department, the total of the two unidentified imprest balances was Rs.115,059,294,193 and a debit balance of Rs.26,897,295 was indicated under Head 248. These balances were not illustrated in Format ACA- 3 of the imprest account and clarifications in this regard had not been presented.	Taking action to enter accurate data.	These values are prepared in the trial balance done through the CIGAS computer programme and these were identified at the time of entering the values of cheques submitted for settling imprest at the finalization of the CIGAS programme at the end of the year. I would like to inform you that we will be including these values in the future (Year End).

- (b) A difference totalling to Rs.115,898,788,636 was observed between the values mentioned in the consolidated trial balance of the Department in respect of 3 subjects and the values mentioned in the consolidated trial balance of the Treasury. Taking action to reconcile departmental books with treasury books. I hope to explain this Paragraph and to provide reponses to it soon.

### 1.6.6 Non-maintenance of Registers and Books

It was observed at the audit test checks that that the following registers had not been properly maintained and updated by the Department.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) <b>Records of losses</b></p> <p>Records of losses had not been updated in terms of FR 110.</p>	<p>Taking action to update the record of losses in accordance with the Provisions of FR 110.</p>	<p>Not reponded.</p>
<p>(b) <b>Vehicle log books</b></p> <p>In terms of F.R 1645 (a), Vehicle Log Books had not been maintained properly in an updated manner.</p>	<p>Taking action to update log books in terms of FR 1645 (a).</p>	<p>Relevant officers had been instructed to take appropriate action in this regard.</p>

### 1.6.7 Responsibilites of the Accounting Officer

According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Accounting Officer is required to ensure the following matters. Nevertheless, the Accounting officer had not acted accordingly.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Department</b>
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(a) The Accounting Officer shall ensure that the Department has prepared and an effective internal control system is being carried out for the financial control of the Department. Likely, the Accounting Officer shall 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 and the review to be carried out by a Chief Accounting Officer shall be in writing and copies of the same shall be made available to the Auditor-General. However, declarations that such reviews had been carried out had not been submitted to the audit.	Action should be taken in compliance with the Provisions of Section 38 of the National Audit Act, No. 19 of 2018.	Adequate work has been done so far on the matters pointed out under the responsibilities of the Accounting Officers. I would like to inform you that we will carry out those functions effectively in the future. Steps have been taken to prepare an action plan that is required for the Administrative Report for achieving sustainable goals and to take forward action in this regard.
(b) Although the Accounting Officer should ensure that all audit queries are answered within the specified periods as required by the Auditor General, there were delays in responding to audit queries and not responding to audit queries in terms of Paragraph 3.6 of the Report.	Action should be taken in compliance with the Provisions of Section 38 of the National Audit Act, No. 19 of 2018.	Since there are a large number of Divisional Offices, there might have certain delays. However, I would like to inform you that action will be taken to resolve these issues in the future.

### 1.6.8 Non-compliance with Laws, Rules and Regulations

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Instances of non-compliance with the Provisions of Laws, Rules and Regulations observed during the audit test checks are analyzed and stated below.

#### Observations

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<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliances</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) FR 104 (3) and FR 104 (4) of the Financial	If a delay of more than seven days is envisaged for making a full report,	Taking action in terms of FR 104 (3) and 104 (4).	Not responded.

Regulations of the Democratic Socialist Republic of Sri Lanka

the preliminary report should be sent immediately in terms of FR 104 (3) and the full report should be submitted within three months from the date of loss (or its discovery) after inquiry in terms of FR 104 (3). Nevertheless, there were five instances, where action had not been taken accordingly in relation to losses totalling to Rs.1,402,956.

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| (b) | Paragraph 07 of the Public Finance Circular No. 01/2015 of 20 July 2015.        | Even though the Commissioner General of Excise should submit monthly reports on Revenue Codes to the Director General of the Department of Fiscal Policy before the 10 <sup>th</sup> day of the ensuing month, action had not been taken to do so. | Taking action in accordance with the Fiscal Policy Circular                               | I would like to inform you that this will be sent correctly in the future. |
| (c) | Paragraph 4 of the National Budget Circular bearing No. 2/2017 of 25 July 2017. | The Key Performance Indicators (KPIs) had not been published to clearly identify the outcome and results of the role to be accomplished by the Department.   | Acting in accordance with the National Budget Circular bearing No.2/2017 of 25 July 2017. | Steps have been taken to include it in the action plan from the year 2020. |

### 1.6.9 Irregular Transactions

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The following observations are made.

**Audit Observation**

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**Recommendation**

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**Comments of the Accounting Officer**

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| (a) | The Department had taken action to issue FL/11 Excise licenses (restaurant licenses) to 8 vessels operated under a Private | Taking action to formulate relevant Rules in terms of | As per the directions given by the Hon. Minister of Finance at |
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Company which has not been registered under the Tourism Development Authority for “Operating Tourist Vessels” under the Tourism Services. Accordingly, confirmations to the effect that 5 vessels had been registered with the Merchants 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 at the 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 licenses for cruise vessel operations.

Section 25 of the Excise Ordinance.

the Enterprise Sri Lanka programme held at Weligama Town Hall, Matara on 23rd and 24th March 2019 and according to the instructions of the Commissioner General of Excise, Letters of approval for issuing FL/11 Excise licenses (restaurant licenses) to 08 Cruise vessels registered with Sail Lanka Charter (Pvt) Limited were forwarded to the Divisional Secretary in pursuant to the powers vested in the Honourable Minister of Finance by Section 28 (a) of the Excise Ordinance.

- (b) Action should have been taken to invite new tenders in case where it is not possible to get the consent of a tenderer to pay the tender amount prescribed by the District Secretary in terms of special Conditions 9 (2) stipulated in the Gazette Extraordinary bearing No.58 of 12 October 1979 of the Democratic Socialist Republic of Sri Lanka. However, action had not been taken accordingly in relation to No. 01 Toddy tavern in Ratnapura. Two tenders worth Rs.16,500,000 and Rs.21,600,000, which were less than 50 percent of the estimated value of Rs.46,089,120, had been submitted in auctioning the No. 01 Toddy tavern in Ratnapura. By considering the request made by the tenderer, who had submitted quotations for a sum of Rs.21,600,000, the Department had taken action to reduce the value of the tender considering the average value of the amount, to which the tender had been

Taking action in accordance with the relevant Laws.

Although tenders were called again in this regard, only those engaged in this field submitted quotations. Action had been taken accordingly since it was obvious that persons would not submit tenders openly as in other tenders and the amount to be received to the Government would be delayed further by re-tendering.

awarded for the past 03 years, without calling tenders again.

At that time too, the tenderer had again rejected the tender amount and appealed. Accordingly, making arrangements to award the tender to a sum of Rs. 28,000,000 based on the average value of the 03 previous years by considering the said appeal of the tenderer by a two-member committee, apart from adhering to the competitive bidding procedure was problematic to the audit.

#### 1.6.10 Transactions of Contentions Nature

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Although a recognized audit firm is required to submit a report stating that the annual turnover of its parent company for the preceding year had exceeded Rs.72 million in relation to FL/4 Excise Licenses issued for commercial complexes as per Paragraph 14 of the Excise Notification No. 902, the accountant of a private trading company had only submitted letters showing the monthly turnover of 7 branches.	Taking action in accordance with Paragraph 14 of the Excise Notification No. 902.	Information has been called from the relevant company in this regard and I will submit the reply as soon as it is received.
(b) Although the true distance should be ascertained after obtaining a report from the Government Superintendent of Survey when complaints are received that the specified distances to schools and public places of worship have been violated as per paragraph 13 (h) of Excise Notification No. 902, action had not been taken accordingly pertaining to the complaints received on Weligama and Trincomalee trade complexes.	Taking action in accordance with Paragraph 13 (g) of Excise Notification No. 902.	The Divisional Secretaries of Weligama and Trincomalee have been requested to submit a survey report obtained from the Superintendent of Surveys of the Government regarding the Cargills Food City Weligama location and Trincomalee and action would be taken to cancel the license if necessary according to the report of the Superintendent of Surveys of the Government.

- (c) Two companies had imported 3,760,319.53 litres as at 30 September 2019 exceeding the stock of imported spirits mentioned in the order issued in accordance with the Provisions. A quantitative difference in stock amounting to 4,553,811.7 litres was observed according to the data of the Department of Customs and the imported quantity in relation to 3 companies. Directly supervising the importation of ethyl spirits and to maintaining liaison with the Import and Export Control Department and the Department of Customs.
- Due to the existence of such differences, it was problematic whether the Import and Export Control Department, the Excise Department and the Department of Customs properly regulate the importation of spirits. It is correct to say that there is a certain volume more in the containers than the approved quantity of spirits at the time of ordering. It was observed that the reason for that is filling of more volume in the containers by the relevant foreign institutions for leakages of goods involved in the transport and the temperature fluctuations that exist between the countries of import and export. Subsequent to transporting liquor to liquor manufactories, volume of liquor is physically examined and taxes are charged for the excess spirit volume imported and the excess volume of spirits received and the taxes charged should be informed to the Department of Customs.
- (d) The department had not made a definite identification of the volume of ethyl alcohol required per year and had not taken steps to formulate necessary Rules and Regulations to impose a fine on excess imports. Accordingly, it is observed that it is allowed to import volumes in excess in addition to the quantity applied for. Formulation of necessary Rules and Regulations. I kindly inform you that there are no legal provisions for the imposition of fines. All the Officers in Charge of all the manufactories in relation to the imported stocks and stocks used for manufacture recommend the quantity of spirits required to be imported and submit documents in that regard. Action has been taken to computerize all the information regarding the importation of spirits.

## 2. Financial Review

### 2.1 Revenue Management

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>																		
<p>(a) The initial estimated revenue for the year under review was Rs.135,000 million and the revenue collected by the Department was Rs.115,417 million. It was 85 percent of the estimated revenue.</p>	<p>Realistic budget estimate should be prepared in terms of FR 128 (1) (a).</p>	<p>Approximately a growth of 5 per cent could be observed in the excise revenue on manufacture of this year, when the excise revenue is compared with that of in the previous year of 2018. However, when excise revenue is considered on the basis of monetary terms, 1 per cent growth could be observed.</p>																		
<p>(b) The details of net excise revenue collected from the year 2015 to 2019 are as follows. Accordingly, a quantitative decrease in revenue was observed in 2019 as compared to 2016.</p>	<p>Preparing accurate revenue estimates as the Revenue Accounting Officer in terms of FR 128 (2) and carrying out revenue administration more efficiently in terms of Provisions stipulated in the Fiscal Policy Circular No. 01/2015 of 22 July 2015.</p>	<p>Approximately a growth of 5 per cent could be observed in the excise revenue on manufacture of this year, when the excise revenue is compared with that of in the previous year, 2018. However, when excise revenue is considered on the basis of monetary terms, 1 per cent growth could be observed.</p>																		
<table><thead><tr><th><b>Year</b></th><th><b>Revenue from Excise Tax Rs. Billion.</b></th><th><b>Difference in Percentage</b></th></tr></thead><tbody><tr><td>2015</td><td>105.2</td><td>52.2</td></tr><tr><td>2016</td><td>120.2</td><td>14.2</td></tr><tr><td>2017</td><td>113.2</td><td>(5.8)</td></tr><tr><td>2018</td><td>113.8</td><td>0.5</td></tr><tr><td>2019</td><td>115.3</td><td>1.3</td></tr></tbody></table>	<b>Year</b>	<b>Revenue from Excise Tax Rs. Billion.</b>	<b>Difference in Percentage</b>	2015	105.2	52.2	2016	120.2	14.2	2017	113.2	(5.8)	2018	113.8	0.5	2019	115.3	1.3		
<b>Year</b>	<b>Revenue from Excise Tax Rs. Billion.</b>	<b>Difference in Percentage</b>																		
2015	105.2	52.2																		
2016	120.2	14.2																		
2017	113.2	(5.8)																		
2018	113.8	0.5																		
2019	115.3	1.3																		

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| (c) | According to Excise Notification No. 902, surcharges are levied on non-payment of taxes on the due date and a total surcharges of Rs.39,514 had not been charged from 9 companies, which had not paid money on the due date and a surcharge amounting to Rs.42,643 related to 04 companies was lost to the Government as the surcharge had not been calculated duly.   | Taking action to collect revenue in terms of the Financial Regulations.      | I hope to give replies soon.  |
| (d) | The total outstanding tax arrears of 05 Companies by 31 December 2019 exceeding a period of more than 05 years was Rs. 479.99 million and total amount of delay penalty was Rs. 1,896.39 million. A progress could not be observed even though it was informed that cases had already been filed against 2 companies and information of 3 companies was referred to the Attorney General for taking legal action against such companies. | Taking action to collect revenue in terms of the Financial Regulations.      | I hope to give answers soon.  |
| (e) | No action had been taken to collect revenue in terms of FR 176 (2), (3) in relation to the collection of arrears of revenue.   | Taking action to recover money in terms of the Financial Regulations.        | Not responded.  |
| (f) | According to the Format ACA-1 (1) submitted along with the financial statements, the arrears of revenue by 31 December of the year under review was Rs.3,799,189,371 and the balance was Rs.3,319,192,027 and thereby, a difference of Rs.479,997,344 was observed.  | Taking action to report the status of the arrears of revenue by 31 December. | In the provision of balances in arrears of income for Format ACA-1(1) submitted along with the Financial Statements, it is prepared on the monetary basis available as at 31 December 2019. When the revenue reports are submitted to the Auditor General and the Ministry of Finance, the balance is computed by deducting the tax arrears received in relation to 31 December of the preceding year up to the |

date of issue of the revenue reports. Therefore, I report that these changes have taken place.

(g) Not charging Taxes in terms of the Tobacco Tax Act.

- (i) 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 conducted in relation to cigar and beedi that are manufactured that such a tax is not charged. By the year 2019, nearly 500 beedi and cigar manufacturers were registered with the Department for beedi and cigar products. The production of beedi and cigars in those factories during the last 4 years was approximately 16 billion units. According to the audit sample, the annual beedi production of 30 selected companies during 2018/2019 was around 31,348,500 units and it was observed that the Government had annually lost a large amount of tax revenue when these 518 registered companies were taken in to consideration.
- Taking action in terms of the Tobacco Tax Act No. 8 of 1999.
- Since it is practically problematic to charge a product unit tax, a methodology of levying a tax on the quantity of tobacco raw material used to manufacture beedi and cigars has been included as an alternative methodology in the proposed Amendment of Tobacco Tax (General) Regulations. The amended notification has already been forwarded to the Legal Draftsman's Department. According to the existing provisions, taxes are charged per stick on imported cigarettes, cigars and beedi.
- (ii) It is observed that the Department is regulating only the cigarette consumption and such a
- Taking action in terms of the Tobacco Tax Act.
- As beedi and cigar production has been widespread as a cottage industry, it is practically

regulation is not implemented for beedi consumption. It has also been found that the smoke emitted by beedi consumption is harmful to the body and it is a cause for chronic diseases. Furthermore, it has been identified that this will cause a huge damage to the productivity of the workforce. Therefore, it is observed that there is a need of paying attention on the regulation of beedi production as well.

impossible to directly supervise the production and storage of the said products, as in the liquor industry.

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| (h) | The balance of Rs.683,925 recovered from 09 interdicted and dismissed officers had been outstanding over 05 years and the balance of Rs.183,305 that should be recovered from 4 officers had been outstanding for a period of 4 to 5 years. | Taking action in accordance with Sections 8.1 and 8.2 of Chapter XLVII of the Establishments Code. | Arrangements have been made to recover the outstanding loans of the officers, who had been interdicted and vacated post and deceased officers. |
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## 2.2 Expenditure Management

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Although a provisions totaling to Rs. 507.2 million had been made for 7 Objects, only an amount of Rs. 124.8 million had been utilized out of the provisions made in relation to those Objects. The savings of those Objects was in the range of 18 per cent to 84 per cent out of the net provisions made.	Preparation of Expenditure Estimates accurately in terms of FR 50.	Since it was not possible to accomplish the desired targets owing to the Easter attack occurred in the last year, provisions made for several Objects have been saved.

(b)	Total net provision of Rs. 58.45 million made for 2 Objects had been fully saved without any utilization.	Preparation of Expenditure Estimates accurately in terms of FR 50.	The above provisions were not utilized as the purchase of vehicles was not done under the finance leasing scheme. However, the purchase of vehicles was done under operating lease in the year 2019 and payments for that purpose are being made by Objects 1406 and 2108. The software development project is currently underway and activities of the project had not been finalized for making payments.
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### 2.3 Incurring of Liabilities and Commitments

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer	
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(a)	The total amount of supplies and services obtained in 27 occasions in relation to 11 Recurrent Objects was Rs. 3,430,288 and the total amount of services obtained in 4 occasions in relation to 4 Capital Objects was Rs. 1,468,150.	Incurring of liabilities in terms of the State Accounts Circular No. 271/2019 of 03 December 2019.	This has happened by mistake and I will do my best to avoid such occurrences in the future.
(b)	A liability or an obligation not reported under Note No. (iii) In terms of Paragraph 3.4 of the State Accounts Circular No. 271/2019 of 03 December 2019 shall not be settled in the year 2020 as an expenditure of the previous year. However, a total of Rs.4,898,437 in relation to 15 instances, which had not been reported in that way during the year 2019, had been settled in the year 2020.	Taking action in accordance with the State Accounts Circular No. 271/2019 of 03 December 2019.	Taking action in terms of FR 94 (1).

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| (c) | Even though it is stated in terms of FR 94 (1) that no expenditure or commitment shall be incurred by any department for work, service or supply, unless financial provision exists therefore in the Annual Estimates, the Department had incurred liabilities for Rs.1,847,321 despite the savings of the provisions for Object 1406 was only Rs.43,903. | Taking action in terms of FR 94 (1). | Relevant activities have been carried out after transferring the necessary provisions to the Object 1406. |
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**2.4 Deposit Balances**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
Action had not been taken to credit, a sum of Rs. 9,946,304, the total of 5 retained amounts for contracts and a sum of Rs.71,000, the total of 5 lapsed tender deposits, to the Government Revenue in terms of FR 571.	Taking action in terms of FR 571.	I will take Action in relation to tender deposits in the future.

**3. Operational Review**  
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**3.1 Non-performance of the Roles**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
Although provisions of Rs.257,000,000 had been allocated for the year 2019 to supply protective stickers for liquor bottles and liquor bottle related products to increase government revenue and to provide and establish and maintain a protective sticker management system, it was not possible to implement the project for local products until the dawn of the year 2020.	Taking action to execute the projects within the stipulated time.	The date of commencement of affixing stickers on local liquor was extended in two occasions on the request made by Lion Brewery and DCSL to provide enough time to newly design sticker affixing equipment and to affix stickers. Due to the prevalence of the Corona epidemic situation and as sticker affixing equipment have not yet been installed by the liquor manufacturing companies, the Excise Notification No. 03/2020 has been issued to extend the sticker affixing date

again up to 31 December 2020. I kindly inform you that we were unable to start affixing stickers on local liquor during the year 2020 owing to the said practical and technical reasons.

### 3.2 Delays in the Execution of Projects

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Audit Observation	Recommendation	Comments of the Accounting Officer
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The financial progress of 05 projects with an estimated cost of Rs.210,830,625 was Rs. 307,110,968 as at 31 December 2019 and the physical progress of all the five projects was not in a satisfactory level in accordance with the plan.	Taking action to execute within the stipulated time.	Steps have been taken to inquire in writing regarding the construction delays in Kandy, Ampara, Point Pedro and Mullaitivu from the Department of Buildings. All the work to be completed as per the original estimate of Pugoda building has already been finalized. An additional estimate has been submitted for some additional works. However, further activities are scheduled to be carried out after receiving the new budget provisions as the provisions made to the relevant Object have already been utilized fully.

### 3.3 Annual Performance Report

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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Three (3) instances of inconsistencies and errors in relation to certain paragraphs included in the performance report of 2018 were observed at the audit test check.	Taking action to maintain a proper coordination among the divisions and to submit accurate reports.	The errors pointed out by Tables 8.15 and 8.16 are accepted.

### 3.4 Procurement

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The following matters were observed regarding the procurement of a computer programme worth Rs. 745,000 that had been introduced for tax calculation.		
(i) A person with technical knowledge related to the subject was not involved in the Technical Evaluation Committee in carrying out procurement activities and the institution, which had submitted the lowest bid among the quotations submitted, was selected without considering the maintenance cost of the software system, maintenance cost, initial cost and pre-service delivery.	Taking action in accordance with the Provisions stipulated in the Government Procurement Guidelines.	The institution, which had submitted the highest price in the submission of quotations, had not specified the warranty period and out of the other two companies, the institution, which had submitted the lowest bid had given the highest warranty period and therefore, the institution had been selected.
(ii) The consultation assistance of a Government institution or a Semi Government institution had not been obtained to examine whether the desired objectives could be achieved through the software after data is entered in to the computer software.	Obtaining the assistance of a Consultant in a Government Institution or Semi Government Institution.	I would like to mention that the service of IT Lecturer / Consultant of the National Institute of Business Management, which is a Semi Government institution of computer technology was obtained in the development of this software and the service of a Deputy Commissioner of Excise was obtained to get the technical assistance regarding excise tax and the assistance of an Accountant was also obtained to get the assistance in accounting.

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| (iii) | Post-procurement costs should be taken into account during the procurement process and a service agreement on the maintenance and upkeep of the computer software had not been entered into even by 20 January 2020.   | It is required to enter in to a service agreement for the maintenance and upkeep of the computer software.       | Since this software has been designed to be used within the existing corporate structure and therefore, it is not required to incur any additional cost, the relevant institution has given a warranty period of one year. Therefore, the Department had not entered in to an additional Service Agreement and the relevant officers were instructed to proceed with the Service Agreement at the end of that period as pointed out by the Audit. |
| (b)   | It was not observed that the approval of the relevant Local Authorities / Urban Development Authority had been obtained for the building plans related to the construction of regional offices in Ampara, Point Pedro, Mullaitivu and Pugoda. It was observed that the relevant construction work had commenced without a settlement of the ownership of the land and without obtaining the approval of the Local Government Authority for the building plans. | Taking action to obtain the legal right related to the construction and obtaining the approval of the Authority. | Approval has been obtained from the Local Government Authorities / Urban Development Authority and relevant documents are in the custody of the Regional Office. I will take action to obtain copies of those documents and submit those reports in the future.   |
| (c)   | The total estimated cost for installing racks inside office rooms belonging to 3 Divisions was Rs.2,112,500. Bids had been called for that purpose on 3 occasions during the period of 6 December 2018 and 29 June 2019. It was observed that repeated bidding for the same work would increase the cost of procurement and it was an act of violating Paragraph 3.6 of the Procurement Guidelines.  | Taking action in accordance with Paragraph 3.6 of the Procurement Guidelines.                                    | Even though cupboards (shelves) have been installed in the Revenue Division, Licensing Division, Archives and the Office Room of the Accountant (Revenue) from time to time as per the official requirements of the Department, I have noted down to take action in the future in accordance with Paragraph 3.6 of the Procurement Guidelines.  |

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| (d) | An amount of Rs. 4,861,556, the total value of 10 items purchased during the year under review, had not been included in the procurement plan. | Taking action to duly revise the procurement plan. | The items that were not included in the procurement plan for the year under review were included in the plan later and subsequently, the procurement plan was revised. |
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### 3.5 Losses and damages

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer	
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(a)	Written evidences on the matters, which caused the award of tender to the second tenderer for a sum of Rs. 3,800,505 although the highest value of the tender for the toddy tavern called No. 13 Seeduwa Mukalangomuwa was Rs. 4,375,000, had not been submitted to the audit and it was observed at the audit that it had caused a loss of Rs. 574,495 to the Government.	Efforts should be made to minimize possible losses.	The highest bid submitted for this toddy tavern in the invitation of tenders was Rs.4,375,000. However, the tender document was rejected due to a defect in furnishing securities. Accordingly, the tender has been awarded to the second applicant. The Tender Board is chaired by the Divisional Secretary of the relevant area. It is kindly informed that the Divisional Secretary and the Tender Board take the decision after considering all the matters.
(b)	Two persons, who had functioned as co-licensees had renewed a FL 4 license from the year 2013 up to the year 2017. The license was issued to one person with effect from 2018 through an affidavit. However, only a sum of Rs.200,000 had been charged without taking action to charge the license transfer fee amounting to Rs. 15,000,000 as per the Excise Notification No. 983 of 15 December 2015. It had been stated in the reply provided for the audit query referred to in this regard that a sum of Rs. 1,300,000 had been recovered as per	Taking action to recover the prescribed charges as per the Excise Notification No. 983.	I kindly inform you that this amount has been revised up to Rs. 1,500,000 as per Paragraph 2 of the Gazette Extraordinary bearing No. 1680/24 of 19 November 2010, in which the Excise Notification No. 926 has been published. Accordingly, I kindly inform you that the balance amount of Rs.1,300,000 has been paid through the money receiving receipt bearing No. Z/24-0999384 of 07 January 2020.

the Excise Notification No. 926. Accordingly, the amount to be charged further was Rs.13,500,000.

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| (c) | The cost for repairs incurred for two vehicle accidents was Rs.817,711 and only Rs. 618,489 was received as insurance compensation. The remaining amount of Rs.199,222 had not been reported in the Statement of losses and Waivers, which comes under FR 106 and FR 113 submitted along with the financial statements as an amount to be further recovered or written off or waived. | Taking action to include accurate data in the financial statements. | Not replied. |
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### 3.6 Not giving Replies to Audit Queries

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Audit Observation	Recommendation	Comments of the Accounting Officer
Twenty Seven (27) audit queries had been issued as at 12 March 2020 for the financial year, 2019 and it had taken more than 03 months to reply to 10 queries and 1 to 3 months to reply to 10 queries. Replies had not been given to 06 queries even by 01 June, 2020.	The Accounting Officer should take action to reply within the stipulated time.	I accept that there had been a delay in obtaining information from the regional offices to give replies due to the Corona pandemic prevailed in the country. The officers have been informed to send the relevant replies without delay and I will take action to avoid the occurrence of such a situation in the future.

### 3.7 Management Weaknesses

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Although the Provincial Assistant Commissioner of Excise and the Superintendents of Excise have to obtain a sample of toddy bottles kept for sale in their Province at least once in three months and to send the samples to the Government Analyst and to get a report, samples had not been obtained from the toddy taverns No. 1 and No. 2 in Ratnapura and samples had not been sent to the Government Analyst after October 2017 until the date of the audit, which was on 29 January, 2020.	Taking action in accordance with the rules and regulations.	I accept it. Relevant officers have been instructed to get samples and test those samples at least once in three months.
(b) In the valuation of toddy taverns, there were quantitative differences between the consumption data reported annually from the respective toll licensing locations and the data used to prepare the valuation reports. In calculating the customer assessment for the year of assessment, it was problematic whether an accurate assessment value would be calculated since it was not observed that attention had been paid to the number of approved coconut trees to supply toddy to the toddy tavern. Confirmations related to the reply were not submitted.	Taking action to calculate the value of assessment by obtaining accurate data in the valuation of toddy taverns.	The period from 1 August last year to 31 July of the relevant year is counted as one year in the assessment of toddy toll. Therefore, I declare that changes mentioned therein had occurred. However, there were no errors in the assessment.
(c) In instances, where the manufacturers had not taken action to renew the registration after the expiry of the valid period of the license related to beedi and cigar products, the Department had to inspect the said manufacturing companies as they	The Department should carry out the regulatory activities.	Relevant excise stations have been informed of this issue. There were no complaints received so far in this connection from any excise station or from any member of the public that

may continue to manufacture the products without a license. However, action had not been taken accordingly. Out of the 30 files, which underwent the audit test check, there were 05 such institutions, which had not renewed their registration.

these companies are manufacturing without obtaining a certificate of registration. The production of beedi and cigars has been widespread as a cottage industry and it is practically impossible to deploy officers to those places.

- (d) In the performance of activities by the Licensing Division such as the issuance of transport licenses and permits for the importation and exportation of liquor and the importation of spirits and the issuance of spirits for industrial products, arrangements had not been made to carry out such activities through the computer programmes. This had led to delays and difficulties in obtaining information and data.
- Taking action to establish the necessary facilities to provide efficient services to the clients.
- I would like to inform you that the duties related to the Licensing Division will be computerized in the future, as pointed out by the audit.
- (e) The Licensing Division is one of the main operational Divisions of the Department and it is observed that the functions of this Division should be carried out through computer software and adequate human resources should be provided to this Division and necessary action should be taken to annually transfer the officers and their duties among the Divisions. It was observed at the audit that the Licensing Division should be re-organized to make it easier to obtain information required for the administrative and internal affairs of the Department.
- Taking action to use computer software to ensure the transparency of the functions of the Licensing Division.
- Officers have been instructed to take necessary steps in the future as per the instructions of the audit.
- (f) Disposal activities related to 10 vehicles, which had been removed from running in the years 2018 and 2019, had not been completed even by June 2020. These vehicles had been parked in the premises of the regional office and the audit could not
- Acting in accordance with the State Finance Circular No. 02/2015 of 15 July 2015.
- Replies were not provided.

rule out the possibility of incurring losses to the Government as economic benefits had not been derived owing to the delay in the disposal activities.

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| (g) | Two vehicle accidents, which occurred during the year under review were due to the fault of an outsider and the total repair cost for those accidents was Rs.885,047. The audit could not rule out the possibility of incurring further losses due to the loss of discounts that could have been obtained in future insurance as the Department had sought to obtain these expenses from the insurance company, which insure the vehicles of the Department, without taking action to obtain them from the external insurance company. | Taking action to obtain compensation from the party responsible for the accidents.  | I kindly inform you that action has been taken to repair and to cover the damage through insurance compensation due to delays in the judicial process and exigencies of service. |
| (h) | Telephone charges of Rs. 230,119 had been paid for 28 phones that had been discarded during the year under review and no action had been taken to deactivate those telephone connections until the date of audit on 20 February, 2020.   | Taking action to use resources economically and productively.   | Replies were not provided.   |
| (i) | Storage of data in the CCTV data storage system was limited only to a maximum of one month. It was problematic at the audit as to whether the benefits are properly derived out of the cost incurred on purchasing and maintaining the CCTV system as the Department had not taken action to retain the details on data storage of scenes during the past period.  | Taking action to use resources economically and productively.   | Replies were not provided.   |
| (j) | A total of Rs. 560,100 had been paid as rent for the year under review for the buildings maintained by the Excise Offices in Ampara, Pugoda and Kandy due to delays in the construction work.  | Taking action to complete the construction work during the stipulated period in a planned manner and to minimize such expenses. | It is expected to conduct the office in the building, which will be constructed by 2020.   |

#### 4. Achievement of the Sustainable Development Goals

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officers</b>
----- The Department was unaware of the goals and objectives to be achieved by the United Nations Sustainable Development Agenda 2030 and had not taken action to allocate funds in this regard and to include them in the Action Plan.	----- Taking action to identify the objectives, allocate the necessary funds to achieve the goals and to include them in the action plan and to take action in order to implement it.	----- Action has been taken to include it in the action plan as applicable from the year 2020.

#### 5. Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Twenty (20) senior level posts remained vacant by 30 June 2019 and 16 posts out of the Posts remained vacant for more than 5 years and 4 posts remained vacant for a period of 2 to 5 years. Acting appointments were made for 12 posts out of these Posts.	Taking action to recruit the approved staff by considering the requirements.	The vacancies could not be filled as the case No. 642/2012 was pending in the Supreme Court against filling of 12 posts based on the results of the limited competitive examination held in relation to the Post of Superintendent of Excise, which is a senior level post. Since the case had already been heard, interviews were conducted on 23 June 2020 and the documents were submitted to the Public Service Commission for making appointments.
(b) It was observed that remaining of 77 vacancies in the Posts of senior and tertiary levels, which directly affect the accomplishment of the Mission of the Department from 2015 and 2016, had Adversely	Taking action to recruit only the approved staff by considering the requirements.	The vacancies for tertiary level posts could not be filled as cases bearing No. 661/2012 and No. 663/212 were pending in the Supreme Court. As the cases have been closed, appointments have been made for

affected the future performance of the Department.

34 promotions on 12 June 2020 on merit basis. Action is being taken to make appointments for 51 posts based on the results of the limited competitive examination. In addition, action is being taken to recruit officers for 17 Posts of Excise Inspector on the basis of the results of the limited competitive examination and recruitment for the remaining 38 posts will be done after receiving the results of the open competitive examination.

- (c) In deploying Excise Officers for distilleries and manufactories in relation to 7 liquor manufacturing companies, four Excise Officers were attached by exceeding the approved cadre and three were attached to the unapproved posts.
- Taking action to deploy only the approved staff by considering the requirements.
- More staff members have been assigned to serve in manufacturing companies, from which higher excise revenue is earned.