

## Report of the Auditor General on Head 247 - Sri Lanka Customs - Year 2016

The audit of the Appropriation Account, Revenue Accounts, Advance Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Sri Lanka Customs – Head 247 for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director General of Sri Lanka Customs on 31 October 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### 1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Account

#### Total Provision and Expenditure

The total net provision made for the Sri Lanka Customs amounted to Rs. 2,056.00 million and out of that, a sum of Rs. 1,979.79 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision made for the Sri Lanka Customs amounted to Rs. 76.21 million or 3.70 per cent of the net provision. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	1,956.00	1,892.73	63.27	3.23
Capital	100.00	87.06	12.94	12.94
<b>Total</b>	<b>2,056.00</b>	<b>1,979.79</b>	<b>76.21</b>	<b>3.70</b>

## 2.2 Revenue Account

### ----- Estimated Revenue and Actual Revenue -----

Sri Lanka Customs had prepared Estimates of Revenue for 16 Revenue Codes for the year 2016 totalling Rs. 700,980.00 million and revenue totalling Rs. 699,872.71 million had been collected during the year under review. The revenue so collected represented 99.84 per cent of the estimate revenue. Details appear below.

Revenue Code	As at 31 December 2016			Excess/ (Shortfall) as a percentage of the Estimate
	Estimated Revenue	Actual Revenue	Excess/ (Shortfall)	
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	Rs. Millions	Rs. Millions	Rs. Millions	
10.01.01.00	160,000.00	156,487.11	(3,513.89)	(2.19)
10.01.02.00	300.00	31.25	(268.75)	(89.58)
10.01.04.00	90,000.00	88,822.93	(1,177.07)	(1.31)
10.01.05.01	55,000.00	59,058.38	4,058.38	7.38
10.01.05.02	2,000.00	2,672.01	672.01	33.60
10.01.06.00	-	-	-	-
10.01.07.00	-	0.87	-	-
10.01.08.00	58,000.00	55,825.12	(2,174.88)	(3.75)
10.01.99.00	-	-	-	-
10.02.05.01	90,000.00	88,751.72	(1,248.28)	(1.39)
10.02.05.02	50.00	-	-	-
10.02.05.03	50,000.00	55,719.12	5,719.12	11.44
10.02.05.04	190,000.00	186,499.20	(3,500.80)	(1.84)
10.02.05.99	4,000.00	3,703.56	(296.44)	(7.42)
20.03.02.17	130.00	167.13	37.13	28.56
20.03.03.01	1,500.00	2,134.25	634.25	(42.27)

## 2.3 Advance Accounts

### ----- 2.3.1 Advances to Public Officers Account -----

#### Limits Authorized by Parliament -----

The limits authorized by Parliament for the Advances to Public Officers Account Item No.24701 of Sri Lanka Customs and the actual amounts are given below.

<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
38.00	37.90	36.00	52.30	300.00	187.50

### 2.3.2 Advance Account on Seized and Confiscated Goods Expenses

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advance Account on Seized and Confiscated Goods Expenses of Sri Lanka Customs and the actual amounts are given below.

<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
6.00	4.60	1.00	3.10	34.00	28.10

### 2.4 Imprest Account

The balance of the Imprest Account No. 7002/0000/00/0071/0016/000 of Sri Lanka Customs as at 31 December 2016 amounted to Rs.1.37 million.

### 2.5 General Deposit Accounts

The balances of 03 Deposit Accounts of Sri Lanka Customs as at 31 December 2016 totalled Rs. 10,970.69 million. Details appear below.

<b>Account Number</b>	<b>Balance as at 31 December 2016</b>
	<b>Rs.</b>
6000/0000/00/0018/0128/000	10,829.62
6000/0000/00/0002/0186/000	135.92
6000/0000/00/0001/0035/000	5.15
<b>Total</b>	<b>10,970.69</b>

## **2.6 Audit Observation**

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The Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Sri Lanka Customs for the year ended 31 December 2016 had been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the Management Audit Report appear in paragraph 3.

## **3. Material and Significant Audit Observations**

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### **3.1 Non – maintenance of Registers and Books**

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Register of Liabilities had not been updated by the Sri Lanka Customs in terms of financial Regulations 214.

### **3.2 Lack of Evidence for Audit**

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Following observations are made.

- (a) Thirty one payment vouchers totalled Rs 86.89 million had not been submitted to the audit even up to the date of this report as per the Financial Regulation No. 272 (3). It was also observed that there were 08 vouchers which were exceeded six months with a value of Rs. 11.64 million and cheques written for that value had been included among there.
- (b) Detailed information on the value of the outstanding amount to be paid at the end of the year from the penalties and sales income of Rs. 17,969.89 million, which had been credited to government revenue over the last 12 years, had not been furnished to the audit.

### **3.3 Replying to Audit Queries**

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It was observed that there had been a delay for a period of 1 month to 12 months in answering 48 audit queries.

## **3.4 Appropriation Account**

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### **3.4.1 Compulsory Savings**

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According to the paragraph 2 of the National Budget Circular No. 07/2015 dated 29 December 2015, it was instructed that 15 per cent of the annual fuel allocation and 10 per cent of the annual allocation for the transport costs should be saved compulsorily from the annual budget estimates of 2016. However, instead of the above objects, savings had been made Sri Lanka Customs for 2 objects of stationery and office requirements and electricity and water by obtaining the approval of the Director General of National Budget. The expected objectives of the circular issued by the Treasury to manage state costs had not been fulfilled by these decisions.

### 3.4.2 Budgetary Variance

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Following observations are made.

- (a) Although a sum of Rs. 10.00 million had been made under the object of refunding tariffs, the entire provision was saved..
- (b) Excess provisions had been made for 10 Objects and as such the savings, after the utilization of provisions, ranged between 9 per cent to 76 per cent of the net provisions relating to the respective Objects.
- (c) Even though a provision of Rs. 45.00 million had been made for local travelling expenses for the year under review, Rs. 9.00 million or 20 per cent was saved. It was also observed that the total travelling payable at the end of the year was Rs.3,668,828. It was not observed that the estimates were prepared on a realistic basis, since there was a further savings of Rs. 5.00 million or 11 per cent even after the settlement.
- (d) Even though the actual expenditure under the Object of electricity and water supply for the year 2015 was Rs.129 million, the allocation made by the estimate for the year 2016 was Rs.150 million and out of that a sum of Rs. 19.50 million had been transferred to other Objects in terms of Financial Regulations 66. A sum of Rs. 9.00 million under those Objects was saved further more.

### 3.5 Imprest Accounts

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Following observations are made.

- (a) Even though the Ad hoc Sub – imprest should be settled within 10 days after the completion of the purpose according to the Public Finance Circular No. 03/2015 dated 14 July 2015, Nevertheless, Ad hoc Sub – imprests totalling Rs. 1,330,000 granted in 15 occasions had been settled after delays ranging from 51 days to 276 days.
- (b) The Treas  
  
Treasury approval should be obtained while exceeding the Ad-hoc imprest limit of Rs 100,000 according to the Financial Regulation 371(2) as amended by the Public Finance Circular No. 03/2015 dated 14 July 2015, but such an approval had not been obtained for payments of Rs. 2,021,000.
- (c) The Ad-hoc imprest balance of Rs. 966,809 which was issued to 26 officers had been settled after a delays ranging from 20 days to 64 days.

### 3.6 Deposits Accounts

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- (a) **Temporary Deposits Account No. 6000/0000/00/018/0128/000 for Statutory Payments**

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Following observations are made.

- (i) A control account for deposit ledgers had not been maintained and a monthly deposit summary statement which is prepared in the Format General 71 for

each year and should be submit to the audit before the end of the month, but it was not submitted

- (ii) The balances of the Deposit Ledgers as at 31 December 2016 had not been shown in terms of paragraph 4.3(1) of the State Accounts Circular No. 209/2010 dated 12 July 2010.
- (iii) Opening balances of deposit ledgers had not been entered in terms of Section 565 (1) (4) of the Financial Regulation.

**(b) Deposit Account No. 6000/0000/00/0001/0035/000 for Goods carried by Air Travel Passengers.**

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Final Accounts for the period of seven years from 2010 to 2016 for this deposit account which was introduced by the Internal Circular No. 696 dated 28 April 2010 were submitted for audit on 28 April 2017. However, evidences required for the audit was not submitted to the audit and the answer for the audit query number PUR/B/CUS/2016/G/21 dated 21 July 2017 also had not been furnished until the date of this report.

Following observations are made.

- (i) Financial statements related to the accounts which was started in the year 2010 had been submitted for the first time to the Audit in the year 2016. It was too prepared only for the year 2015.
- (ii) Although accounts with including the year 2015 had been submitted again in the year 2017 and there were no evidence to confirm the transactions.
- (iii) Although evidence for accounts were requested by the audit on several instances, the Sri Lanka Customs did not respond favourably for those requests.

**3.7 Revenue Accounts**

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The preparation of Estimates of Revenue under 16 Revenue Codes, the collection of Revenue, accounting and presentation of accounts had been devolved on the Head of Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of audit test check of those Revenue Codes.

- (a) Excise duty which was collected by the Sri Lanka Customs in terms of Excise (Special Provisions) Act No. 13 of 1989, has been revoked by the Excise Duty Extraordinary Gazette No. 1228/14 dated 22 March 2002 issued by the Minister of Finance, with effect from that day. Before this cancellation, a further outstanding balance of Rs. 89.26 million had to be recovered on the 1 January of the year under review from liquor manufacturing institutions.
- (b) The tax of Rs. 25 levied on a service of a garment unit provided by the Company registered in the Board of Investment of Sri Lanka, under Value Added Tax Act No. 07 of 2012 had been revised as Rs. 75 per unit by the Value Added Tax amended Act No. 20 of 2016 dated 01 November 2016. However, the Sri Lanka Customs had

implemented it under the Order No. 116 only with effect from 14 June 2017, and the calculated loss of tax revenue was estimated at Rs. 166.59 million by the audit.

- (c) According to the Revenue Accounts submitted to the audit, an income of Rs.21,315.80 million had been in arrears. Due to lack of satisfactory level of settling arrears income between the various Departments and Ministries among them through respective Heads, the arrears of income have been reported as arrears for several years relating to the following Revenue Codes.
- (i) Out of the total arrears tax income as at 31 December 2016, the Import Tax arrears representing the highest value of Rs 6,811.71 million or 31.96 per cent and it was decreased by Rs.657.18 million or 8.79 per cent while comparing with the year 2015 and a sum of Rs. 5,105.22 million or 74.95 per cent represents for the period from the year 2006 to 2012.
  - (ii) A sum of Rs. 512.64 million or 16.44 per cent had been recovered from the arrears of Port and Airport Development tax as at 31 December 2015 and it was observed that such recoveries had been arrears due for 2014 and 2015. However, out of the total arrear tax revenue of Rs. 21,315.80 million as at 31 December of the year under review, 12.23 per cent or Rs. 2,606.35 million represents Port and Airport Development tax revenue and out of that 92.00 per cent or Rs. 2,390.07 million was relating to arrears in respect of the period from the year 2006 to 2012. It was observed that there was a slowdown in the recovery of those arrears.
  - (iii) Out of the total arrears tax revenue of Rs. 21,315.80 million as at 31 December of the year under review, 6.65 per cent or Rs. 1,418.20 million represents arrears Import Cess Tax revenue and a sum of Rs. 1,336.10 million had been relating to the period from the year 2006 to 2012. It represents 94.21 per cent of the total arrears of Imports Cess Tax revenue.
  - (iv) Under Provincial Infrastructure Development Levy, which was abolished in 2011, a sum of Rs 42.42 million had been in arrears as at 31 December 2011, only Rs. 9.02 million had been recovered in the year ending 31 December 2016. It represents 21.27 per cent from the arrears tax income. Accordingly, furthermore a sum of Rs. 33.40 million to be recovered as at 31 December of the year under review and that sum of Rs. 33.40 million relating to the period of the year 2006 to 2012.
  - (v) The Special Commodity Tax revenue arrears as at 31 December of the year under review was amounting to Rs. 3,598.06 million and a sum of Rs.15.12 million in respect of period from the year 2006 to 2012 had been included in that arrears. Also, it was observed that the Special Commodity Levy revenue represented 16.88 per cent of the total arrears of income of Rs.21,315.80 million as at 31 December 2016.
  - (vi) The arrears of Liquor Excise tax revenue amounting to Rs. 89.26 million or 0.42 per cent represents from the total arrear revenue of Rs. 21,315.80 million as at 31 December of the year under review. That arrears were brought forward from the year 2001 due to the company had defaulted the payments and the Sri Lanka Customs had taken action against the company.
  - (vii) The arrears Petroleum Product Tax for the year under review had been increased by Rs. 731.52 million or by 29.40 per cent while comparing to the previous year. Out of

the total arrears of tax revenue of Rs. 21,315.80 million for the year, product tax representing Rs. 5,707.65 million or 26.77 per cent.

- (d) A sum of Rs. 18.72 million was credited to the various income accounts on 31 December of the year under review, and the value had been removed on 28 February 2017. The reasons for these notes were not disclosed to the audit by the journals and the basis of the transaction was not presented to the audit.
- (e) Even though half-yearly reports indicating the arrears of state revenue should be prepared according to the Circular No 01/2015 of 20 July 2015, and the Financial Regulations 128 (2) (c) for revenue estimating, Collection, Monitoring and Reporting of Public Revenue, and it has to be submitted to the Auditor General within the ensuing month after the expiration of the period, reports by the Sri Lanka Customs had been submitted only on 27 March 2017.
- (f) The Revenue Officer should be very careful to point out all the useful information pertaining to the increase or decrease of income in accordance with Financial Regulation 85 (1) (b), but this was not done
- (g) In terms of Financial Regulations 85 (1) (c), real and accurate estimates should be prepared as far as possible it is questionable whether the Customs had act accordingly.

### **3.8 Reconciliation Statement of the Advances to Public Officers Account**

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The following deficiencies were observed during the course of the audit test checks of the Reconciliation Statements as at 31 December 2016 of the Advances to Public Officers Account Item No. 24701.

- (a) As per the Reconciliation Statements presented to the audit, the balance outstanding as at 31 December of the year under review amounted to Rs. 6.43 million, and those outstanding ranged for a period from 1 to 4 years. Though the Department has to ensure that there is no outstanding balance of payments after three months in accordance with the Financial Regulations 485 (4) and paragraphs 1.1.6 and 1.1.7 of the Budget Circular No. 118 dated 01 October 2004 after the transfer of an officer, the outstanding balance of even over 4 years remained unclear. The follow up action on the recovery of those outstanding balances had been at a weak level.
- (b) According to paragraph 5 of the Public Enterprises Circular No. 96 of 18 August 1994 the date and Ministry or Department of the officers transferred should be noted in the Schedule of Loan Balances recoverable from the Officers transferred out those details was not mentioned in the relevant schedule.
- (c) As at the end of 2016, the non-movable loan balance maintained at Rs. 2.44 million and Rs. 1.59 million as a result of non-complying with paragraph 4 of Chapter XXIV of the Establishments Code on the recoveries of advances of retired, deceased and dismissed officers.
- (d) Action had not been taken to recover loan balances of Rs. 603,580 which were outstanding for a long period from the officers who left the service as per the paragraphs 4.5 or 4.6 of Chapter XXIV of the Establishments Code.

- (e) Loan balances of Rs. 416,631 as at 31 December 2016 relating to 07 officers had been understated.

### **3.9 Advances Account on Expenses of the Seized and Confiscated Goods**

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The following observations are made in this connection.

- (a) The outstanding recoverable balances of the Advance Account amounted to Rs. 28.09 million and the balances outstanding for more than one year was Rs. 21.72 million. The follow up action on the recovery of those outstanding balances had been at a weak level.
- (b) An unreconciled balance of Rs. 77,681 had been observed between the advance payment ledger maintained by the Department and the accounts submitted and a reconciliation statement containing the reasons for this had not been presented to the audit.
- (c) A sum of Rs. 297,196 out of advances amounting to Rs. 413,383 given to 07 custom investigations had not been settled due to lack of proper maintain of reports and documents and insufficient supervision.
- (d) Even though the prize money had been distributed from the advance of Rs. 318,051 after completing the investigations, these balances had been further included as arrears advance balances in the advance accounts of the year 2016.

### **3.10 Good Governance and Accountability**

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#### **3.10.1 Internal Audit**

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Whether adequately and trained staff should be assigned to the Internal Audit Division in terms of the Audit and Management Circular No. DMA/2009 (1), only 12 Management Assistant Officers of the Combined Service were attached to all other posts except the post of Chief Internal Auditor of the Sri Lanka Customs, which is granting a 40 per cent contribution to the State Revenue. These officers also were detained only for a short period of six months in this division and thereafter. They are transferred to other Division of the Sri Lanka Customs, due to that the ability to make a qualitative audit was kept to a minimum level. Therefore, it was observed in audit that there was a need to deploy trained staff to meet the requirement of the institution.

#### **3.10.2 Annual Performance Report**

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Although the performance report should be tabled in Parliament within 150 days after end of the financial year by the Sri Lanka Customs in terms of the Public Revenue Circular No. 402 dated 12 September 2002, the report had not been tabled in Parliament by the date of audit. However, the Sri Lanka Customs had submitted the report to Parliament on 26 September 2017.

### 3.11 Assets Management

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The following deficiencies were observed during the course of the audit test checks of the assets of the Sri Lanka Customs.

#### (a) Idle and Underutilized Assets

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The access control system installed at a cost of Rs. 21.64 million in the new Customs Building was not in the expected operating condition at present.

#### (b) Conduct of Annual Boards of Survey

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Action had not been taken in terms of Financial Regulations (757) (2) (a) in respect of the excess, shortages and other recommendations pointed out by the Board of Surveys for the year 2016.

#### (c) Assets given to External Parties

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Instances of irregular release of certain assets to external parties by the customs were observed. Details appear below.

- (i) The lands belonging to the Sri Lanka Customs in the Northern and Eastern Provinces had been given to use of the Army. But it was not come into the final stage for transfer or takeover of those lands.
- (ii) The Sri Lanka Customs had given a land situated at No.08 of Munnakkara in Negombo to the Department of Coast Conservation without making a legal transfer.
- (iii) The lands belonging to the Sri Lanka Customs situated at Selby Road and Stephens Walk at Negombo had been utilized by external parties without a legal transfer.

#### (d) Unsettled Liabilities

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Although liabilities as at 31 December 2016 should be accurately disclosed in terms of State Accounts Circular No. 252/2016 dated 09 December 2016, liabilities totalling Rs. 4.60 million had not been in the format DGSA 8 (1) of the Appropriation Account.

### 3.12 Non - compliances

#### ----- Non- compliances with the Laws, Rules, Regulations etc. -----

The instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

**Reference to Laws, Rules and Regulations**

**Value**

**Non-compliance**

Reference to Laws, Rules and Regulations	Value	Non-compliance
<hr/>		
	<b>Rs.</b>	
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<b>(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka</b>		
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(i) Section 7.1 of Chapter V	-	Although it should be sent forthwith by post or by sending a personal letter to the officer concerned, he or she should be deemed to have waived his post from the date on which he left office without taking leave, it was not done in one instant. Also, the officer was appointed to a high post in the same period.
(ii) Section 11.1 of Chapter XV	1,693,600	Although all other officers other than the Heads of Departments should be travel in economic class of a flight, five officers who went overseas in the business class and settled the expenses.
(iii) Section 1.3 of Chapter XXVIII	-	Attendance and departure of certain officers did not mention with their signature on the attendance register and there were instances that the attendance register was not supervised by a staff officer.
(iv) Section 27.7 of Chapter XLVIII		A delay of 04 months had been taken to allow a mandatory leave for a prisoned officer to said period.
<b>(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>		
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(i) Financial Regulation 104 (4)	-	Immediate action had not been taken on 07 vehicle accidents of Sri Lanka Customs Department during the year 2016.
(ii) Financial Regulation 571(1)		Half yearly Statements of Penalty and Sales Income Deposits lapsed for more than two years had not been prepared and furnished
(iii) Financial Regulation 1646	-	Running charts of two vehicles which had obtained in rental basis had not been submitted to audit for the period from 1 May 2016 to 30 April 2017.

- (c) Paragraph 02 (1) of Public Administration Circular No. 09/2009 (1) dated 16 April 2009. - All the officers in the public service should mark their arrival and departure by a fingerprint machine. Even though according to the Circular No. 01/2010 dated 19 February 2010 of the Customs Department issued on the basis of the said circular, all officers of the Department of Customs had to mark their arrival and departure by fingerprints with effect from 01 March 2010, finger print machines for Sri Lanka Customs and its sub offices had not been fixed up to the date of this report.
- (d) Paragraph 9 of State Accounts circular No. 252/2016 dated 9 December 2016. - In addition to the appropriation account, even though Financial Performance Statement, Financial Position and Cash flow statement should be prepared and had to be submitted to the Auditor General along with a copy to Department of State Accounts before the 30 June 2017, it had not been done so.
- (e) Paragraph 87 of the Rule of manual of the Public Service commission of the Democratic Socialist Republic of Sri Lanka. - Even though a certified copy of marriage certificate, copies of birth certificates of the children, acknowledgement of the marriage and child birth of the officer (for widow/ male, orphans pension etc.) should be included in the personal file, it had not been done accordingly.
- (f) The Extra Ordinary Gazette No. 1520/17 dated 26 October 2007 of the Democratic Socialist Republic of Sri Lanka. - (i) Over time payment of the Sri Lanka Customs had not been paid according to the amounts determined by the Secretary, Ministry of Finance in accordance with the Secretary, Ministry of Public Administration.  
(ii) Although the ratios of overtime allowance of the Department had been increased by 45 per cent by the overtime committee instead of the payment made until 2013, no specific approval had been received for that.  
(iii) Even though the Sri Lanka Customs has incurred a 27 hour overtime payment for a 24 hours holiday and 18  $\frac{3}{4}$  hours overtime payment to a normal working day, no approval had been obtained.
- (f) Paragraph 3(IV) of the Departmental Internal Circular NO.01/2010 dated 19 February 2010. - (i) Although when an officer has been recorded the arrival, but if the departure has not been recorded, half a day should be deducted from the officer's leave, the Customs Sub-office at the passengers arrival terminal at Katunayake Airport not completed with that requirements.

- (ii) Even though an officer, if he is absent from his office for any official duties, should be recorded in the visiting register and obtained the approval of the staff officer, Customs sub office at the passengers arrival terminal at the Katunayake Airport had not maintained a visiting register.

### 3.13 Performance

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The observations on the progress of the Sri Lanka Customs according to the Annual Budget Estimates for the year 2016 are given below.

#### (a) Collection of Revenue

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The budgeted Tax Revenue and the Actual Tax Revenue for the year under review as compared with the Tax Revenue of the preceding year are given below.

	2016			2015		
	Tax Revenue according to Revised Estimates	Actual Tax Revenue	Actual Tax Revenue as a percentage of Estimated Revenue	Tax Revenue according to Revised Estimates	Actual Tax Revenue	Actual Tax Revenue as a percentage of Estimated Revenue
<u>Taxes on International Trade</u>	Rs. Million	Rs. Million		Rs. Million	Rs. Million	
Import Duties	160,000	156,487	97.80	92,000	108,116	117.51
Export Duties	300	31	10.33	60	33	55
Ports and Airports Development Levy	90,000	88,823	98.69	55,000	56,733	103.15
Import Cess Levy	55,000	59,058	107.38	-	-	-
Motor Vehicles Concessionary Levy	-	-	-	42,000	42,467	101.11
Regional Infrastructure Development Levy	-	0.87	-	-	0.29	-
Export Cess Levy	2,000	2,672	133.60	3,400	2,713	79.79
Special Commodity Levy	58,000	55,825	96.25	56,000	52,275	93.34

## Excise Duty

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Cigarettes		88,752	98.61	80,000	79,981	99.97
	90,000					
Liquor	50	-	-	-	-	-
Petroleum	50,000	55,719	111.44	34,000	45,091	132.62
Motor Vehicles	190,000	186,499	98.16	240,000	223,414	93.09
Others	4,000	3,704	92.60	10,000	3,812	38.12
Fees on Local Sale of Garments	130	167	128.46	100	121	121
Fines and confiscates	1,500	2,134	142.27	1,400	1,129	80.64
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Total	700,980	699,872	99.84	613,960	615,885	100.31
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Following observations are made.

- (a) The Sri Lanka Customs had collected revenue amounting to Rs. 699,872 million under 16 Revenue Codes during the year under review and the revenue collected in the preceding year under 16 Revenue Codes amounted to Rs.615,888 million. Accordingly, the revenue for the year under review, as compared with the preceding year, had increased by Rs. 83,984 million or 14 per cent. The increase in the revenue from the Excise Duty on motor vehicles, import duties, port and airport development taxes, cigarette tax, import cess and speciality commodity taxes had an impact on this increase.
- (b) Out of the 06 estimated revenue codes exceeding Rs. 50,000 million, only the Import Cess Levy code had exceeded the target and its performance was 107.38 per cent. Other 5 tax revenue codes had not reached the expected targets.
- (c) The initial revenue estimate of Rs.50 million for the year under review for Export duty revenue code was increased up to Rs.300 million. The data relating to the increase was not submitted to the audit. Revenue collected for the year under review amounted to Rs. 31 million and a revenue shortage of Rs. 269 million had been observed and it was 89.66 per cent as a percentage.
- (d) The original estimate of Rs. 71,000 million for the port and airport development tax for the year 2016 had been revised to Rs. 95,000 million by the Department of Fiscal Policy. However, the actual income amounted to Rs. 88,823 million. This is a higher variance of 25 per cent than the original estimate. Accordingly, the Sri Lanka Customs should have been paid more attention to the revenue estimation.

- (e) Though the imported Cess tax revenue collected during the year under review stands at Rs 59,058 million, only Rs. 40,000 million was stated in the original estimate which sent by the Sri Lanka Customs to the Treasury Department of Fiscal Policy on 14 August 2015. Accordingly, it was observed that the actual tax revenue has increased by 48 per cent from this original estimate.
- (f) Even though Export Cess levy revenue for the last 04 years was nearly Rs. 3,000 million, the reason for calculating it as Rs. 2,000 million in the revised estimate of the year 2016 was not submitted to the audit. The actual performance had been shown a higher value of 134 per cent due to an abnormal deduction of estimated revenue. It was 79.79 per cent in the last year.
- (g) Sri Lanka Customs had collected revenue amounts to Rs. 186,499.20 million during the year under review under the Revenue Code of 10.02.05.04 on the Excise Duty on Motor Vehicles and the revenue collected in the preceding year amounted to Rs. 223,413.69 million. Accordingly, it was observed a decrease of Rs. 36,914.49 million or 16.52 per cent in the year under review as compared with the preceding year. The high tax policy of the government for vehicle import had mainly contributed to the reduction of this tax revenue.
- (h) During the year under review, the Sri Lanka Customs had collected revenue of Rs. 167.14 million under the revenue code on local sales of garments and it was Rs. 121.64 million in the preceding year. It was an increase of Rs. 45.50 million or 37.41 per cent when compared to the previous year.
- (i) The initial Special Commodity Levy revenue estimate of Rs. 65,000 million for the year under review was revised to Rs 58,000 million. However, the new estimate was presented at the Finance and Policy Department on 14 August 2015 with regard to specialty commodity levy, which amounted to Rs. 72,000 million. Accordingly, the actual revenue collected was Rs. 55,825 million and it was 77.53 per cent of the estimate.
- (j) The decrease in cigarette consumption due to increase the cigarette tax was the reason for the difference between the revised revenue estimate and the net income collection. However, despite the reduction in cigarette production by only 165 million units in the previous year, revenue collection increased by Rs.8,771 million or 10.97 per cent. The high taxes on cigarettes had a major impact on the rise of this tax revenue.
- (k) Though the collection of revenue on other excise duties in the previous year was Rs. 3,812 million, it was estimated as Rs. 11,200 million for the year reviewed and had been revised up to Rs. 4,000 million. The total revenue collected under this code was Rs. 3,703 million. The collected tax revenue was 33.06 per cent of the original income and 92.57 per cent from the revised estimate.
- (l) The original estimate of the Sri Lanka Customs for the code of charge on local sale of garment was Rs. 120 million and its actual income was Rs. 167 million. Accordingly, actual tax collection was 139 per cent from the original estimate. There was no mention of the control deviation that could be allowed at the estimate.

- (m) The main component of the Sri Lankan Customs' enforcement of laws is preventive unit and detecting customs offences, seizure of impugned goods, conducting customs investigations and inquiries and prosecution of offenders are main functions of that. During the year 2016, the number of Customs investigations conducted by the Customs Preventive Division has been 808 and there were only 383 verdicts of verification for forfeitures or penalties, while the amount recovered from forfeitures or penalties was Rs. 577 million. However, in the year 2016, 425 investigations had not been completed, and verdicts of verification or forfeitures or penalties were not imposed in the year 2016. Accordingly, the revenue that could have been earned through this had been avoided.
- (n) Although overseeing of Export Processing Zones and Ports Supervision is a responsibility of the Preventive Directorate under the Law Enforcement Arm of Sri Lanka Customs, action had not been taken by the Custom Preventive Directorate to conduct screening activities up to 31 December 2017 on Export Processing Zones located at Pallekelle, Horana and Mirigama. Similarly, action had not been taken to set up sub-preventive offices in those sub-offices or to appoint officers from any other preventive offices. The activities of the Customs Preventive Section of the Fishery Harbour at Dickowita had not been commenced by 31 December 2017.
- (o) It was observed that Sri Lanka is becoming a drug distribution center, and although it was identified to locate computer control programmes for Narcotic Control activities on the UNODC/WCO and WCO guidelines, the steps to implement the four main activities of that were not taken by the Sri Lanka Customs by 31 December 2017. Details of the activities are as follows.
- (i) Launching of the container tracking system.
  - (ii) Purchasing necessary equipment to locate hidden drugs in commercial containers.
  - (iii) Targeting suspicious sea routes and importers.
  - (iv) Detention of suspicious containers for investigations.
- (p) In assessing the performance of the Sri Lanka Customs revenue collection, there was no methodology to measure the incidence of the impact of the following activities.
- (i) Increase of tax revenue due to increased tax rates
  - (ii) Increase of income due to the increase in the prices of foreign market in goods and services
  - (iii) Increase in tax revenue due to variations in exchange rates
  - (iv) Increase of income due to increased import of various types of reasons.

### 3.14 Deficiencies in Operating Bank Accounts

#### Adjustable Balances

Matters that revealed according to the analysis of the adjustments in a Bank Reconciliation prepared by the Sri Lanka Customs relating to a current account for the month of December 2016 are shown below.

Details of Adjustments	Age Analysis			Total
	More than 06 months less than 01 year	More than 01 year less than 03 years	More than 03 years	
	Rs.	Rs.	Rs.	Rs.
(i) Cheques deposited but not realized	106,533	8,784	4,166,667	4,281,984
(ii) Cheques issued but not presented for payments	428,425	-	-	428,425
(iii) Unidentified Debits	741,735	-	-	741,735
(iv) Unidentified Credits	2,558,313	-	-	2,558,313

Following observations are made in this connection.

- According to the Bank Reconciliation as at 31 December 2016, cheques deposited in the Bank but not realized amounted to Rs 4,166,667 which was coming toward from August 2011. Although the Sri Lanka Customs stated that this value was rectified in March 2017, the value remained same as unrealized cheques in the Bank Reconciliation even in May 2017.
- Action had not been taken to identify and settle the amount of Rs. 2,558,313 which was reported as un-identified receipts as at 31 December 2016.
- Action had not been taken to identify and settle the amount of Rs. 741,735 which were reported as un-identified payments as at 31 December 2016.

### 3.15 Transaction of Contentious Nature

Certain transaction executed by the Sri Lanka Customs had been of contentious nature. The particulars of such transactions revealed during the course of audit test checks are given below.

- Any foreign exchange earned on the sale of duty free liquor stores should be properly deposited in a foreign currency bank account maintained in the names of such outlets, a

duty-free liquor store at the Colombo Port premises, the income of US \$ 26,392 (Rs. 3,902,876) aggregating US \$ 5,193 from August to December 2014, US \$ 12,568 for the year 2015 and US \$ 8,631 up to 30 June 2016, had not deposited in the bank. The company's accountant, manager of the duty free shop and cashier has confirmed in writing that the Customs Officer who involved in the duty free shop is receiving a commission. Similarly, industry or service Sector of the Customs (bundle) or another Section of the Customs (eg, PCAD) had not properly monitored whether the revenue collected by the shop is accurate and deposited to the Bank and only one Customs Officer was deployed in the shop,

- (b) Section 8 of the Customs Ordinance provides legal provisions for the Preliminary Investigation Officer to act on behalf of the Director General of Customs in a customs investigation. The Customs Investigation Officer had imposed a fine of Rs. 10 million for the customs investigation No. PREV/FPO/1725/2015 on the legal provisions. But later it was reduced upto Rs. 3 million by the relevant Investigation Officer on an appeal received. However, the Attorney General had informed the Director General of Customs in writing that there were no such legal provisions to the Director General of Customs.
- (c) The total amount collected by the Katunayake Airport Customs office during the period from January to September 2016 amounted to Rs. 314.41 million and the contribution to state revenue amounted to Rs. 231.59 million, or nearly 74 per cent of the total revenue collected due to Rs. 6.69 million out of this income is to being credited to the Overtime Fund of the Customs Officers and out of the fines income Rs. 76.13 million is being credited to the Customs Officers' Gift Fund and the Management Compensation Fund..
- (d) Although there has been a massive loss of state revenue while taxes on cigarettes levied by the government are increasing, due to non-levied of taxes from the cigarette stocks of the institutes which were registered in the tax unit as whole sale agents of the Ceylon Tobacco Company, action had not been taken to recover adjusted taxes on related stocks even in one instance out of 37 instances of Cigarette tax rates that had changed since 1990.
- (e) Since opening, classifying and storing the postal mails receiving by sea and by air to the Colombo Central Mail Exchange is done by the Postal Department officials without the participation of Customs Officials it was observed that there was a possibility of withdrawing postal parcels which were prohibited or restricted, without tax or confiscation.
- (f) Customs officials attached to the Central Mail Exchange only conducting a sample check on small parcels, there was a possibility on higher value small parcels to be withdraw free of customs duties and no proper testing method was used to select the sample to cover the population. Alternative modern technology also has not been used properly to this.

- (g) Even though an officer who is in probation should not send abroad for study or exercise except to acquire a qualification to be confirmed in the service as per the in accordance with Section 03 of Chapter XV of the Establishment of the Democratic Socialist Republic of Sri Lanka, contrary to that an Assistant Superintendent of Customs who is in probation had been sent to participate in a 13 week English Course in Australia.
- (h) A number of audit queries had pointed out that a large number of customs offences had been detected during the import of goods to state institutions during the past several years, with a majority of penalties imposed on them and 70 per cent of those penalties being rewarded to customs officials and credited to their Welfare Fund. Following deficiencies were observed in the Audit in relation to a Customs investigation conducted by the Sri Lanka Customs on a transaction conducted by the Sri Lanka Ports Authority.
- (i) Custom notes had not presented relating to 36 Cranes worth Rs. 11,498.83 million imported in the year 2011 for the operation of the Sri Lanka Ports Authority. Tax amount of Rs. 916.53 million also had not been paid. Due to the lack of necessary actions had been taken during the importing of these machines; the relevant tax could not be obtained until the year under review.
- (ii) The Chief Manager (Supplies & Materials Management) of the Authority had reported by submitting a progress report to every Meeting of the Board of Directors on non-presenting Customs notes and non-paying of duties relating to this 36 cranes, since 2013. However, the Director General of Customs, representing as a member of the Board of Directors, did not take any actions regarding this method.
- (iii) After following a customs investigation for this Customs offense in 2016, it had ordered on 2 June 2017 to confiscate Rs. 1,580.10 million and recover a penalty from Sri Lanka Ports Authority. According to the existing legal provisions in the Customs Ordinance, it was observed that 70 per cent or Rs. 1,106.07 million of the amount due to be recovered, could be credited to pay for gifts to the Customs Officers and to the Customs Management and Compensation Fund established for the welfare of Customs Officers.
- (iv) In the previous years too, such a customs investigation was carried out relating to the Ceylon Electricity Board (CEB) and the Ceylon Petroleum Corporation (CPC) and recovered penalties amounting to Rs. 266.02 million and action had been taken to transfer 70 per cent or Rs. 186.21 million out of that penalty to the Management and Compensation Fund established for welfare purposes.
- (v) In a situation where a large sum of money from the Consolidated Fund spending annually to run government institutions which were running at loss, as these institutions could have been subject to financial crises due to penalized and recovered.
- (vi) It was observed that suitable action had not taken on behalf of the responsible officers for the tax losses due to offenses and / or negligence caused by officers employed in the said offices.

- (vii) If formal actions are not taking against the offences done by officials, they would have been a risk of being organized in the future.

### **3.16 Irregular Transaction**

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Certain transaction executed by the Sri Lanka Customs had been devoid of regularity. Such instances observed are given below.

- (a) A shortage of 60 liquor bottles relating to 12 types of foreign liquors amounting to Rs.149,796 were revealed at a physical verification of a duty free liquor shop at the Colombo Port premises and there was a tax loss of nearly Rs.276,578 had been occurred on this value. It was reported in writing, the reason for the shortage was taking of liquor on the promise of payment later by the Customs Officials.
- (b) Payment of Tax exemptions has been made available to registered agencies of the Board of Investment for up to 5 years of full income tax exemptions, 10 per cent tax exemptions for next two years and 15 per cent for the rest years. As per the agreements entered into with these institutions, 80 per cent of the total output of the institutions providing such tax concessions should be export, but it was observed that proper methodology is not in operation to check this in the Sri Lanka Customs.
- (c) It was observed that no proper methodology is following in the container clearance centre at Grey Line II. Therefore, it cannot be ruled out in audit that the state revenue is losing in large scale. Certain deficiencies observed during the sample audit test checks are as follows.
  - (i) Appointing the Board of Examiners, the Determining the test method and the clearing the containers are done by the same officer.
  - (ii) Non-maintaining of minimum composition of the Board of Examiners.
  - (iii) Clearing the containers unusually in a short period of time.
  - (iv) Undue delay in the container clearing activities.
  - (v) Non-modernization of the methodology of checking containers along with the technology and the modern methods in parallel with the enhancements to the clearance.
  - (vi) No proper monitoring through security cameras.
  - (vii) Office area is not covered by security cameras.
  - (viii) Changing the testing methodology determined by the computer system in the clearance center.

### **3.17 Losses and Damages**

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Following observations are made.

- (a) A sum of Rs. 15.20 million tax income had been lost to Sri Lanka Customs due to imposing of Rs. 17 million penalties without considering the tax loss incurred from a customs agency registered under the Board of Investment of Sri Lanka which had introduced in malpractices of customs tax income of Rs.32.20 million.

- (b) A tax income of Rs. 27.10 million had been lost to the Government of Sri Lanka due to issue of fish stocks to the local market by an institute, registered under the Sri Lanka Board of Investment, without paying the relevant Customs duty.
- (c) The government's tax revenue is lost whether to transporting sarees, shalwars, clothes, women's shoes, computer accessories, motor spare parts, etc. for the commercial purpose by using the passenger terminal of the Katunayake Airport, as result of not following a proper procedure to estimate the value of these goods and this situation had been continuously pointed out in audit reports. There were instances when some passengers had travelled abroad for commercial purposes more than 90 times a year during the year 2016 and, 60 passengers brought goods in 1,533 occasions with commercial interests. It was observed that due to not discouraging of this situation could result in a loss of tax revenue, as well as business ventures who do their business paying taxes on a fair basis could be discouraged.
- (d) Seven finger print machines which had been purchased by the Sri Lanka Customs spending a sum of Rs. 859,500 had already been misplaced up to now.

### **3.18 Management Weaknesses**

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The following weaknesses were observed during the course of audit test checks.

- (a) Previous Audit Reports and Audit Queries had continuously pointed out the weaknesses in the supervision activities on the duty free liquor shops conducted by the Sri Lanka Customs at Katunayaka International Airport and the Colombo Port. Following are some of the deficiencies observed during the audit examination carried out during the year under review regarding one duty free shop located at the Colombo Port.
  - (i) Liquor had been issued without issuing sales invoices.
  - (ii) A strong methodology had not been introduced to prevent liquor sales to others, other than to foreigners or navel crew staff.
  - (iii) Even though the transfer of liquor from a bonded ware house to a duty free shop should be carried out under the supervision of a Customs Officer, there had been instances of liquor being transported without such supervision.
  - (iv) After the issuance of liquor, based on a permit issued by the Immigration Office, at the request of a ship's Captain, no any party take action to cancel the permit and there was a possibility of repeatedly buying liquor based on that license.
  - (v) According to the Customs Ordinance CCTV camera systems which should be located in duty free warehouses and duty free shops in which the goods were held but those were not in operation.
  - (vi) Chocolates, perfumes and cigarettes also sell in duty bonded liquor stores and invoices with 4 copies had not been prepared for those.
  - (vii) Proper circular instructions were not provided for the control of duty free shops and the terms and conditions of the agreements had not been updated.
- (b) Sri Lanka Customs obtain certificates from various institutions to ensure that the imported goods comply with the required standards. Despite the fact that there were

instances where Customs have taken action to release the imported items to the premises of the importers, the Customs had not followed a proper procedure to check whether the goods had been issued for consumption or released to the market until the certification was received. It was not observed in sample audit test check, that a customs inspection or monitoring has been carried out on 937 instances out of 1,200 instances.

Further, it was observed that even before the release of the guarantees for these goods, which were released to importers on personal bonds, imported goods, had been released to them again. It was observed in sample audit checks that there were instances without releasing the previous personal bonds, goods valued at Rs.241 million had been released again on personal bonds.

- (c) Due to weakness in internal control on payment of salary of Sri Lanka Customs, two officers who went overseas for no pay had been paid a sum of Rs. 297,356 as salaries during the year under review. However, it was reported to audit by the Accounting Officer, that the amount was recovered.
- (d) The overtime expences of the Sri Lanka Customs for the year under review was amounted to Rs. 567.09 million. The internal control system implemented by the Sri Lanka Customs regarding overtime payment and overtime work was very poor and due to this the officers got the opportunity to obtain overtime claims only when they signed the overtime register. Although several audit inquiries and audit reports had pointed out for many years on these internal control weaknesses, no steps had been taken to regularize these methods.
- (e) It was observed that the Custom Inspectors who are engaged in the Postal Customs Office and the Custom Inspectors who are engaged in the assess section of the Central Mail Exchange Customs Office are obtaining overtime from the Express Postal Section by signing on overtime register of that section.

### 3.19 Human Resources Management

#### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2016 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre -----	Number of Vacancies
	-----	-----	-----	-----
(i)	Senior Level	329	281	48
(ii)	Secondary Level	987	593	394
(iii)	Tertiary Level	1152	865	287
(iv)	Primary Level	505	429	76
	Total	----- 2973	----- 2168	----- 805
		=====	=====	=====

Following observations are made.

- (a) Even though in view of the significance contribution made to the Public Revenue from the imported goods, Sri Lanka Customs should have deployed an adequate number of officers for the examination of the containers containing the imported goods, it was not observed in audit that this was not done.
- (b) A Register of Information on the number of Officers attached to each Division had not been maintained by the Human Resources Management Division or the Administration Division. As such evidences to confirm whether the officers had been attached to the respective Division in accordance with the requirements of such Divisions had not been furnished to Audit.
- (c) Officers had not been appointed to the Pallekele, Horana and Meerigama free trade zones and Dikovita fishery harbor to custom preventive activities up to the date of this report. Further, internal supervisors were not for the shipments which had supervised by the officers.