

## **Head 247- Sri Lanka Customs**

---

### **1.1 Qualified Opinion**

The audit of the financial statement of the Sri Lanka Customs for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 Sri Lanka Customs was issued to the Accounting Officer on 31 May 2019. In terms of Section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Sri Lanka Customs was issued on 31 May 2019 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 give a true and fair view of the financial position of the Sri Lanka Customs as at 31 December 2018, 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**

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**

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines 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 Sri Lanka Customs 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 Sri Lanka Customs.

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 Sri Lanka Customs 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**

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 Sri Lanka Custom'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 (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

- (a) As there was no requirement of preparation of financial statements for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.
- (b) As there was no requirement of preparation of financial statements for the preceding year, recommendations on financial statements had not been made by the Department.

## 1.6 Comments on Financial Statements

### 1.6.1 Presentation of Accounts

The following financial statements had not been presented to Audit on due date by the Sri Lanka Customs.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
<b>Annual Financial Statements</b> In terms of State Accounts Circular No.267/2018 of 21 November 2018, the annual financial statements should be submitted to the Auditor General before 28 February 2019. However, it had been submitted to Audit on 19 March 2019 after a delay of 19 days.	Action should be taken in terms of provisions of the circular issued by the Department of State Accounts annually for the preparation of annual financial statements.	The Department of Customs had submitted two final accounts as the Appropriation Account for revenue under Revenue Head – 641 and a separate Appropriation Account under Expenditure Head – 247 for the year 2017. However, in terms of State Accounts Circular No.267/2018, both the said accounts had to be presented in the same format as financial statements. Moreover, only transactions relating to Expenditure Head – 247 are directly indicated in the Imprest Account of the Treasury. Accordingly, the said delay has occurred due to spending a certain time for tallying these Heads at the same time (As no precedent) and consultation with the Treasury. I kindly inform that this delay will not take

place herein after.

### 1.6.2 Non-compliance of Financial Statements with Provisions of the Circular

Even though financial statements should be prepared in terms of the State Accounts Circular No.267/2018 of 21 November 2018, an instance deviating from the Circular is as follows.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
In the preparation of the statement of financial performance, statement of financial position and cash flow statement in terms of the State Accounts Circular No.267/2018 of 21 November 2018, information for the year 2017 had not been included in prescribed specimen forms.	Action should be taken to prepare financial statements in accordance with provisions mentioned in the Circular.	The statement of financial performance, statement of financial position and the cash flow statement for the year 2017 had not been prepared in the year 2017. As such, I kindly inform that those information could not be included in the specimen form relating to the financial statements of the year 2018.

### 1.6.3 Accounting Deficiencies

#### (a) Statement of Financial Performance

The following deficiency was observed on the statement of financial performance made available to Audit.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
Even though the revenue collected under the Revenue Code No.20.03.03.01 of the year under review (Penalties and Confiscating), amounting to Rs.420,073,711 had been repaid, the said value had been indicated as a rectification of an error in the <b>income statement</b> (ACA-1) submitted with the financial statements for the year under review.	Identification of the revenue and action should be taken to reveal the correct position in reporting repayments.	Audit observations are accurate. The sum of Rs.420,073,711 represents the value of penalties and confiscations transferred to the General Deposit Account through a cross entry for repayments. It has been paid by cash through the Deposit Account. I noted down to record it in the specimen form accurately in the ensuing year.

**(b) Cash Flow Statement**

The following observation is made in respect of the cash flow statement.

<b><u>Audit Observation</u></b>	<b><u>Recommendation</u></b>	<b><u>Comments of the Accounting Officer</u></b>
The value of Rs.5,064,750 settled by the Expenditure Head had been included in the sum of Rs.2,165,216,031 mentioned in the cash flow statement as personal emoluments and operating expenditure relating to the year 2018.	Only transactions carried out by cash and cash equivalents should be included in the preparation of cash flow statement.	The sum of Rs.5,064,750 mentioned as receipts through accounts summaries has been included under revenue from Customs duties and included as an investment in the sum of Rs.109,972,279 remained under purchase of physical assets or under constructions in the cash flow statement.

**1.6.4 Lack of Evidence for Audit**

The following audit evidence had not been made available.

<b><u>Audit Observation</u></b>	<b><u>Recommendation</u></b>	<b><u>Comments of the Accounting Officer</u></b>
Even though it had been reported that there were no misplaced vouchers whatsoever in the Note (VII) of financial statements of the year 2018, twenty nine payment vouchers valued at Rs.225,904,874 had not been made available to Audit.	(i) All payment vouchers relating to the year of accounts should be presented to Audit before submitting financial statements. (ii) In case of misplacement of vouchers, action should be taken in terms of Financial Regulation 272(1) and instructions of the Treasury Circular No.320 of 21 July 1993.	The term 'no misplaced vouchers' as mentioned in Note (vii) of financial statements of the year 2018, is correct. As there is a delay in issuing cheques, submission of relevant vouchers to you is delayed. However, out of 103 vouchers, 74 had been submitted to you on 29 May 2019 and I kindly inform that the remaining will be submitted to you without delay.

**1.6.5 Responsibilities of the Accounting Officer**

In terms of provisions of Section 38 of the National Audit Act, No. 19 of 2018, the Accounting Officer shall ensure on following matters. However, action had not been taken accordingly.

<b><u>Audit Observation</u></b>	<b><u>Recommendation</u></b>	<b><u>Comments of the Department</u></b>
(i) The Chief Accounting Officer and the	Action should be taken in terms of provisions of Section	I recorded that action will be taken in future by studying

Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and periodic reviews are carried out to monitor the effectiveness of such systems and accordingly make any alterations as regard for such systems to be effectively carried out. Those reviews shall be in writing and copies of the same shall be made available to the Auditor General. However, statements for such reviews had not been made available to Audit.

- (ii) The Accounting Officer shall ensure that timely preparation and submission of annual and other financial statements and in addition, he shall be required to submit annual reports to Parliament pertaining to the auditee entity. However, those requirements had not been fulfilled due to audit observations mentioned in paragraphs 1.6.1 and 3.2 of the report.
- Action should be taken in terms of provisions of Section 38 of the National Audit Act, No.19 of 2018.
- The Department of Customs had submitted two final accounts as the Appropriation Account for revenue under Revenue Head – 641 and a separate Appropriation Account under Expenditure Head – 247 for the year 2017. However, in terms of State Accounts Circular No.267/2018 of 21 November 2018, both the said accounts had to be presented in a same format as financial statements. Moreover, only transactions relating to Expenditure Head – 247 are directly indicated in the Imprest Account of the Treasury. Accordingly, the said delay was occurred due to spending a certain time for tallying these Heads at the same time (As no precedent) and consultation with the

Treasury. I kindly inform that this delay will not take place herein after.

### 1.6.6 Non-compliances with Laws, Rules and Regulations

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

<u>Observation</u>	<u>Value</u>	<u>Non-compliance</u>	<u>Recommendati</u> <u>on</u>	<u>Comments</u> <u>of</u> <u>the</u> <u>Accounting Officer</u>
<u>Reference to</u> <u>Laws, Rules</u> <u>and</u> <u>Regulations</u>	<u>Rs.</u>			
<b>(i) <u>Statutory Provisions</u></b>				
Section 153 (2)(b) of the Customs Ordinance No.17 of 1869	<b>16,007,590,727</b>	A proper methodology should be prepared by obtaining the concurrence of the Minister of Finance for the distribution of rewards from the Rewards Fund. However, rewards amounting to Rs. 16,007,590,727 had been paid during 20 years from the year 1999 to the year 2018 without confirming that the concurrence of the Minister of Finance had been received for the Departmental Order No.PL 118 of 28 January 1988 issued for the distribution of customs rewards	Confirmation of receipt of formal concurrence of the Minister of Finance for the Departmental Order.	I do not agree with your observation in respect of payment of rewards in terms of Section 153 (2) (b) of the Customs Ordinance No. 17 of 1869. In issuing the Departmental Order No. 118 of 1988, it can be assumed that the said Order has been issued by obtaining the relevant approval and it should be further investigated.

by the Department.

(ii)

**Establishments Code of the Democratic Socialist Republic of Sri Lanka**

-----

▪ Section 1.2 of Chapter XII

When taking leave by certain officers of the Sri Lanka Customs, a Form General 125 had not been filled and submitted and a register of leave granted had not been kept in Form General 190 and there were instances of not certifying the said register by the supervisor.

Leave should be approved before taking leave by the Form General 125.

Audit observation is accurate. At present, leave is being taken by duly approving them.

▪ Section 04 of Chapter XXIV

3,997,823

(i) Action had not been taken to recover loan balances of retired and deceased officers.

Settlement of loans within due periods in terms of provisions.

Audit observations are accurate. Out of loan balances of Rs. 3,997,823 recoverable from officers who had retired and deceased as at 31 December 2018, a sum of Rs. 1,027,715 had been recovered by 28 May 2018 and action is being taken to recover remaining loan balances.

1,982,094

(ii) Necessary action had not been taken regarding loan balances recoverable from officers who had been

Settlement of loans within due period in terms of provisions. Taking action in terms of provisions of the Establishments Code in respect of officers who

Audit observation is accurate. Even though it is required to check personal files of officers for taking action to recover these loan balances of Rs. 1,982,094 recoverable from officers who had been interdicted as at 31



interdicted. had not performed duties in a proper manner. December 2018, the said personal files which are many years old could not be found out in checking carried out so far. As further action is being taken to check the record room, I kindly inform that action would be taken to make relevant recoveries after finding out relevant files.

603,580

Settlement of loans within due period in terms of provisions.

Audit observation is accurate .

(iii) Action had not been taken to recover loan balances recoverable from officers who had vacated the post. Taking action in terms of provisions of the Establishments Code in respect of officers who had not performed duties in a proper manner.

■  
Section 1.3  
of Chapter  
XXVIII

Attendance Registers which are kept by relevant Divisions, in respect of arrival and departure of public officers, have not been submitted daily to a staff officer for verification. Make officers aware of that action should be taken in terms of provisions of the Establishments Code and taking proper steps in respect of officers who do not take action accordingly.

The relevant officers have been made aware for recording arrival and departure correctly and submitting it to a staff officer for verification and at present, attendance register is maintained in a proper manner.

(iii) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- F.R.85 (1)  
(b)

Revenue Accounting Officer should take particular care to give all useful and relevant information relating to any increase or decrease of Revenue.

Nevertheless, action had not been so taken in respect of 16 revenue accounts.

Give clear explanations by carrying out a depth analysis on variations in terms of Financial Regulations.

The Estimate of Revenue for the ensuing year is prepared on the basis of data and information of preceding years within the period from June to August of the current year by the Department of Customs.

However, new budget proposals are implemented along with the budget submitted and passed in November of the current year. As such, the original estimate is subjected to considerable variations. Subsequently, a revised estimate is prepared and submitted in compliance with new budget proposals by the Department of Fiscal Policy.

However, collection of revenue estimated relating to Heads of the Revenue of the Department of Sri Lanka Customs depends on economic activities of third parties and as such, it cannot be controlled by the Sri Lanka Customs. In the analysis of impact arisen through macroeconomic activities such as behavior of the business community, variance of the world oil price, concessionaries and sanctions arisen from other countries regarding international trade, it is difficult to prepare 100 per cent correct estimate of revenue in a realistic manner.

At present, the Department of Sri Lanka Customs has appointed a Customs

Revenue Committee to minimize this difficulty as far as possible and members thereof have been appointed in a manner of representing all divisions. Moreover, it is planned to prepare a more realistic estimate of revenue and to reveal reasons for variances in revenue in future by carrying out other activities including training of officers for formulating a specialized model for preparing the estimate of revenue by the said committee.

- F.R. 565 (3)

Even though a Balancing Account should be maintained in respect of receipts and payments of deposits, action had not been taken accordingly.

Facilitating for accounting by maintaining a Balancing Account.

As a large number of receipts and payments of deposits are available, maintenance of a Balancing Account and preparation of a monthly abstract of deposits are impracticable.

- F.R. 565 (5)

A monthly abstract statement of deposits in Form General 71 for each year must be sent to Audit before the end of the following month.

Assisting audit by taking action in terms of Financial Regulations .

As a large number of receipts and payments of deposits are available, preparation of a monthly abstract of deposits are impracticable.

Nevertheless, action had not been taken accordingly.

Two years' lapsed deposits have been credited to Revenue up to the year 2016 and preparation of lists of deposits credited to Revenue half yearly is difficult due to availability of a large number of deposits. As such, lists of deposits to be credited annually to Revenue, have been made available to Audit.

- F.R. 571 (1)

Lists of all deposits which have lapsed within the due period, had not been prepared at the close of each half year.

(iv) Revised  
Financial  
Regulations

- |   |                  |   |   |   |
|---|------------------|---|---|---|
| <p>▪ F.R. 371(2) as revised by the Circular No.3/2015 of 14 July 2015 of the Secretary to the Ministry of Finance</p>   | <p>500,000</p>   | <p>In the instances of exceeding Ad-Hoc Sub-Imprests of Rs 100,000, approval of the Treasury should be properly obtained therefor. However, the Treasury approval had not been obtained for advances granted to the Sri Lanka Corporative Marketing Federation Ltd. (Markfed) for obtaining fuel to the Head Office of the Customs.</p> | <p>Obtaining the proper approval of the Treasury.</p>   | <p>According to your observation, I kindly inform that action will be taken to obtain the approval of the Treasury in terms of the Public Finance Circular No.03/2015.</p>  |
| <p>F.R. 371(2) (b) as revised by the Circular No.3/2015 of 14 July 2015 of the Secretary to the Ministry of Finance</p> | <p>394,024</p>   | <p>Nine officers of the Sri Lanka Customs had obtained Ad-Hoc Sub-Imprests and out of that, moneys from 32 per cent to 100 per cent had been retained in hand for a period from 16 to 184 working days.</p>   | <p>Taking proper measures on officers who do not settle advances as at due date in terms of provisions.</p> | <p>In certain instances, advances have to be paid for certain purposes (Eg. Reserving holiday resorts, placing orders for food), several days before carrying out the purpose.</p>  |
| <p>F.R. 371(5) as revised by the Circular No.3/2015 of 14 July 2015 of the Secretary to the Ministry of Finance</p>     | <p>2,378,000</p> | <p>After issuing an Ad-Hoc Sub-Imprest, it should be settled to the Accounts Division within 10 days after the completion of the relevant purpose.</p>  | <p>Taking proper measures on officers who do not settle advances as at due date in terms of provisions.</p> | <p>Officers have been made aware for settling advances obtained, with immediate effect. However, according to the Transfer Procedure of the Sri Lanka Customs, officers are transferred in a frequent manner and as such there are delays in settlement</p> |

		However, officers who had obtained Ad-Hoc Sub-Imprests, had not duly settled in 25 instances and the period of delay was from 15 days to 203 days.		of advances. As pointed out by you, Directors of Customs were made aware for taking action to settle advances in terms of circulars.
(v) <u>Public Administration Circulars</u> Circular No.09/2009 of 16 April 2009 of the Ministry Of Public Administration and Home Affairs	-	Even though all officers in the public sector should record their arrival and departure by using a finger print machine, no officer in the Sri Lanka Customs had done so.	Attention should be strictly paid on following the state general provisions and directives of the Committee on Public Accounts.	Discussions were held on your observation even at the Committee on Public Accounts in Parliament. However, it could not be reached a final decision thereon.
(vi) <u>State Accounts Circulars</u> Paragraph 4.3.1 of the State Accounts Circular No.209/2010 of 12 July 2010	<b>11,672,347,297</b>	The closing balances remained as at 31 December 2017 in Deposit Ledgers had not been carried forward as opening balances on 01 January 2018 and a schedule as well had not been submitted along with accounts for deposits remained as at that date.	Maintenance of Registers properly and assisting audit by carrying out accounting activities.	Existence of differences of balances brought forward in deposit accounts for a long period and it is difficult to submit a schedule for deposits due to large number of transactions made under these accounts daily.
(vii) Customs Departmental Order 375 (3)	-	Even though a Movement Register on leaving the office premises should be maintained by officers of all divisions and sub-offices, under	It is a weak internal control of the management and taking prompt and proper measures to rectify the said situation.	Officers have been made aware and action is being taken to maintain a Movement Register in future.

supervision of a Staff Officer and officers in charge, action had not been taken accordingly.

**2. Financial Review**

**2.1 Management of Revenue**

Audit observations made on collection of arrears of revenue are as follows.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
<p><b>(a) Arrears of Tax Revenue</b></p> <p>(i) Out of the overall arrears of tax revenue as at 31 December 2018, a sum of Rs.6,370 million or 30.36 per cent is represented by the arrears of import duty. Even out of the said amount, a sum of Rs.4,673 million is the arrears of tax revenue remained unrecovered within the period from the year 2008 to the year 2013.</p> <p>(ii) Out of the overall arrears of tax revenue as at 31 December 2018, a sum of Rs.2,884 million or 13.75 per cent is represented by the arrears of Port and Airport Development Levy and even out of the said amount, a sum of Rs.2,664 million is the arrears of tax revenue remained unrecovered within the period from the year 2008 to the year 2013.</p> <p>(iii) An arrears of tax revenue of Rs.42 million was recoverable as at 31 December 2011 from the Regional Infrastructure Facilities Development Levy cancelled in the year 2011 and out of that, only a sum of Rs.12 million representing 28.52 per cent had been recovered by 31 December 2018. Accordingly, the value of Rs.30 million remained further recoverable as at 31 December 2018 is the value of arrears of tax revenue relating to the period from the year 2008 to the year 2010.</p>	<p>Arrears of taxes should be correctly recovered without delay and credited</p>	<p>Audit observation is accurate .</p>

(iv) According to returns on arrears of tax revenue submitted as at 31 December 2018, out of the overall arrears of tax revenue, a sum of Rs.5,597 million representing the revenue from Excise Duty on Petroleum had been in arrears for the year 2018. It was 26.68 per cent out of the overall arrears of tax revenue and delays in recoveries for fuel obtained on credit basis by Government institutions for essential services, had been attributed to the said arrears.

(v) Out of the overall arrears of tax revenue of Rs.20,979 million as at 31 December 2018, a sum of Rs.89 million or 0.42 per cent is represented by the revenue from Excise Duty on Liquor. It had become an arrears of balance brought forward since the year 2001 due to default in payments by the relevant company.

(vi) According to the returns on arrears of revenue submitted as at 31 December 2018, a sum of Rs.328 million or 24.78 per cent of the revenue from Excise Duty on Motor Vehicles representing a sum of Rs.1,323 million out of the overall arrears of tax revenue, had been in arrears for the period from the year 2008 to the year 2012.

(vii) A sum of Rs.1,630 million had been in arrears by 31 December 2018 under the Penalties and Confiscating Revenue Code and out of that, a sum of Rs.1,369 million had been in arrears for the period prior to the year 2008 to the year 2017. However, it had not been revealed in the return on arrears of revenue made available to the Auditor General.

to the Revenue.

Arrears of taxes should be accurately recovered without delay and credited to the Revenue.

Audit observation is accurate .

Arrears of tax should be accurately recovered without

Activities on penalties and confiscating are

delay and credited to the Revenue. carried out according to the final decision of the customs investigations carried out by various divisions of the Department of Customs. Moneys recovered relating to them, are retained in Deposit Account until the investigations and legal activities are concluded. According to the results of investigations, it is decided whether the payments are again made to external parties or whether those are credited to the Revenue and to the Customs Officers' Rewards Fund. As such, this is not indicated in the return of the arrears of revenue due to such uncertainty.

**2.2 Management of Expenditure**

Observations on preparation of annual budget estimate, transfer of provisions, obtaining provisions from supplementary budget estimate and utilization, utilization of provisions and savings, are given below.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
<p>(a) <u>Recurrent Expenditure</u></p> <p>Even though provisions of Rs.3,269 million had been made for recurrent expenditure for the year under review, out of that, 34 per cent representing Rs,1,101 million had been saved without being spent. Savings relating to 09 Recurrent Objects ranged from 16</p>	<p>- Action should be taken to minimize budgetary variances by preparing estimates in a</p>	



per cent to 100 per cent as a percentage of the net provision.

realistic manner.

Audit observations are correct

(b) Capital Expenditure

Out of provisions of Rs.346 million made for capital expenditure for the year 2018, sixty eight per cent or Rs.236 million had been saved without being spent. Savings of 08 Objects ranged from 38 per cent to 100 per cent as a percentage of the net provision.

Attention of the relevant parties should be drawn to the impact of these variances on the national budget.

(c) Out of provisions made for Object No.1102 (Expenditure on foreign travels) and 1203 (Food, beverages and uniforms) of the year under review, sums of Rs.3.5 million and 14 million had been saved and those amounts were 90 per cent and 36 per cent respectively out of provisions made. Accordingly, in the preparation of annual estimates, provisions had been made without paying attention on sources of financing for expenditure. As there is a possible risk of incurring expenditure exceeding provisions mentioned in annual estimates, it was observed that it can be extraneous to the financial control on expenditure.

- Attention should be strictly paid on sources of financing for expenditure in the preparation of estimates.

In the preparation of annual estimates, those are prepared by considering opportunities on foreign trainings for officers in the Department, belonging to other all island services in addition to the Customs Officers. However, lack of opportunities for such trainings in the year 2018 has attributed to savings of those provisions.

- Preparation of estimates in a realistic manner for functions which can be performed during the year.

The sum to be paid to the Ports Authority for supplying food for Customs Officers for the month of November 2018, amounted to Rs.2.8 million. However, the said expenditure could not be incurred in the year 2018 due to delay in sending vouchers by rectifying an error in the invoice submitted thereon.

- Attention of officers should be drawn to the unfavorable impact of unrealistic estimates on the national budget.

In addition to that, a committee was appointed to change the current uniform on behalf of the staff entitled to uniforms of the Department of Customs and failure in procuring cloths for uniforms in the year 2018 as well, has attributed to savings of provisions due to delay in receiving decisions of the said committee.

- (d) Provisions of Rs.120 million had been made for the Object No.2001 (buildings and constructions) and out of that, provisions of Rs.99 million representing 82.56 per cent had been saved. Failure in completing procurement activities as expected, has been the main reason for those savings. Out of the said provision (Rs.120 million), almost a sum of Rs.115 million had been made for renovations including the construction of fifth floor of the restroom of the Customs, Katunayake. However, it was observed that the approval for those constructions had not been legally obtained even by 21 March 2019.
- (e) Out of provisions made in the year under review for maintenance, rehabilitation, development and training activities of the ASYCUDA Information Technology System which is the main computer system of the Sri Lanka Customs, sums of Rs.7 million under Object 1302, Rs.17 million under

Audit observations are accurate.

Object 2002, Rs.15 million under Object 2103 and Rs.10 million under Object 2401 had been saved and those amounts had been 100 per cent, 38.44 per cent, 100 per cent and 99.75 per cent respectively of the net provisions made. Moreover, it had been mentioned that failure in incurring expenditure and in completing procurement activities as expected had been the main reason for those savings. Accordingly, it was observed that weakness in the identification of the requirement, capacity and scope of the project as well as failure in taking action in accordance with procurement plans prepared in terms of the Procurement Guidelines in the preparation of estimates had been the main reason for savings in provisions made in estimates.

(f) Provisions made in annual estimates for Object No.1409(Other) had been Rs.900 million. Out of the said provision, a sum of Rs.840 million or 93 per cent had been made for making payments relating to container scanning. However, the relevant project had not been implemented during the year under review. Out of the provisions made therefor, a sum of Rs.83 million had been transferred to 09 other Objects in 06 instances in terms of the Financial Regulations 66/69.

- Attention should be strictly paid on sources of financing for expenditure in the preparation of estimates.
- Preparation of estimates in a realistic manner for functions which can be performed during the year.
- Attention of officers should be drawn to the unfavorable impact of unrealistic estimates on the national budget.

The Project on installation of container scanners in the Port premises, commenced in the year 2016 could not be implemented up to the year 2017 due to a case filed in the Supreme Court. As the said Project is expected to be implemented in the year 2018 and special attention of the Hon. Minister of Finance had been paid thereon, provisions had been

- Attention should be strictly paid on sources of

- financing for made for the said expenditure in the Project. As revenue was preparation of expected to the estimates. Government on the
- Preparation of recovery of charges estimates in a from the relevant realistic manner for project, the said functions which can provision had been made be performed so as not to affect the during the year. budget deficit on the
  - Strict attention of basis of the said officers should be revenue. It was expected drawn to the that expenditure on unfavorable impact operations would be of unrealistic incurred from the said estimates on the provisions after national budget. completing the constructions of this Project. The expenditure expected for other administration activities had arisen in an unexpected manner due to inflation and revision of payment of combined allowances by circulars. As such, necessary additional provisions had been made from the savings of the said provisions itself.

(g) According to financial statements, the net provision for expenditure in the year 2018 was Rs.3,615 million and the actual expenditure was Rs.2,277 million. Accordingly, the difference between the net provision and the actual expenditure amounts to Rs.1,337 million and taken as a percentage, it stands at 37 per cent.

(h) In terms of revisions made from time to time to the National Budget Circular No.2/2017 dated 25 July 2017 issued by including guidelines and instructions for the preparation of the budget estimate of the year 2018, elements that characterize the medium-term

In the preparation of estimates, making reconciliations from the provisions made for Objects of several preceding years and Audit observation is accurate. It has been noted to pay attention to the matters pointed out by you when preparing future

macro-fiscal framework for 2018-2020 mainly include the rationalization of recurrent expenditure and prioritization of capital expenditure while enhancing government revenue mobilization along the envisioned path of fiscal consolidation of the government as well as improvement of objectives such as social and economic development of this country which may occur in the ensuing year, had been distinguished.

However, except for personal emoluments of Sri Lanka Customs, provisions totalling Rs.1,817 million comprising Rs.1,471 million and Rs.346 million had been made during the year 2018 for recurrent expenditure and capital expenditure respectively. Nevertheless, by the end of the year, the savings out of the net provisions made for recurrent expenditure (except for personal emoluments) and capital expenditure amounted to Rs.769 million and Rs.236 million representing 52 per cent and 68 per cent respectively. Accordingly, in the allocation of provisions for recurrent and capital expenditure of the Sri Lanka Customs as well as spending the said provisions, it was observed that action had not been taken in terms of requirements of the aforesaid circular.

forecasting of estimates. However, provisions required in making payments for the ensuing year after carrying out and thereby avoiding relevant matters as unnecessary planned, obtaining allocation of imprests from the provisions for Treasury is problematic. As such, Objects. I kindly inform that the above reason had resulted in savings of provisions.

The special attention of the officers should be drawn to the adverse effect to the national budget due to such unrealistic variations in the estimates.

### 2.3 **Entering into Liabilities and Commitments**

-----  
 Audit observations revealed relating to incurring of commitments are shown below.

<u><b>Audit Observation</b></u>	<u><b>Recommendation</b></u>	<u><b>Comments of the Accounting Officer</b></u>
<b>Incurring of Commitments exceeding Provisions</b>		
(a) Sri Lanka Customs had incurred liabilities amounting to Rs.16.73 million exceeding	Strict attention to be paid by officers on the prevailing laws and rules	Audit observation is accurate.

provisions relating to 07 Objects in the year 2018 contrary to Financial Regulations and circulars such as Financial Regulation 94(1) of the Democratic Socialist Republic of Sri Lanka and provisions in Circulars such as 03(f) of State Accounts Circular No.263/2017 dated 22 December 2017, 4:11 of State Accounts Circular No.266/2018 dated 19 October 2018 and 3:4 of State Accounts Circular No.267/2018 dated 21 November 2018.

**(b) Non-revelation of Commitments accurately**

- |   |  |  |
|---|--|--|
| <p>(i) In terms of State Accounts Circular No.267/2018 dated 21 November 2018, all liabilities as at 31 December 2018 under Note (iii) should be revealed by the statement of commitments and liabilities. However, liabilities totalling Rs.26.5 million had not been revealed in the Appropriation Account.</p> | <p>Liabilities should be computed accurately and included in relevant formats.</p>         | <p>As a large amount of commitments and liabilities are incurred through various divisions of the Customs, this deficiency had occurred due to the inability of obtaining those details accurately to the Finance Division and I will take action to minimize the said situation.</p>  |
| <p>(ii) Moreover, the report on commitments and liabilities adjusted in terms of provisions in 4:11of State Accounts Circular No.266/2018 dated 19 October 2018, should be submitted to the Department of State Accounts through</p>  | <p>Timely and accurate submission of data required by the Department of State Accounts</p> | <p>The report on commitments and liabilities adjusted in terms of provisions in 4:11of State Accounts Circular No.266/2018 has been submitted to the Department of State Accounts through the first supplementary accounts summary and it has been uploaded to <a href="http://www.newcigas.gov.lk">www.newcigas.gov.lk</a> website.</p> |

the first supplementary accounts summary as Annexure 01. Nevertheless, liabilities amounting to Rs.26.5 million had not been revealed to the Department of State Accounts.

However, I kindly inform that details on identified liabilities after submitting the supplementary accounts summary, have not been reported to the Department of State Accounts.

### 3. Operating Review

#### 3.1 Failure in obtaining the expected Output

Even though the total revenue estimated relating to 16 Revenue Codes in the year under review was Rs.831,290,000,000, the net revenue collected during the year stands at 86.16 per cent of the estimated revenue which is Rs.716,277,377,520. Audit observations relating to Revenue Codes for which the expected output could not be reached, are shown below.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
(a) Receipts of Revenue		
I. The total net revenue collected by the Sri Lanka Customs in the year under review was Rs.716,277 million and the revenue collected under Import Duty Revenue Code was Rs.97,071 million. As compared with the revenue of Rs.136,501 million collected in the preceding year, it had decreased by Rs.39,429 million.		
II. A revenue of Rs.50,790 million has been collected under the Import Cess Levy Revenue Code in the year under review and the		

revenue collected in the preceding year under this Revenue Code was Rs.56,574 million. As compared with the preceding year, the revenue for the year under review has decreased by Rs.5,784 million or 10.22 per cent.

III. A revenue of Rs.2,591 million has been collected under Export Cess Levy Revenue Code in the year under review by the Sri Lanka Customs and the revenue collected under this Revenue Code in the preceding year was Rs.2,980 million. As compared with the preceding year, the revenue for the year under review has decreased by Rs.388 million or 13.03 per cent.

Maximum action to be taken Audit observations are for the improvement of accurate revenue

IV. The Excise Duty on Liquor which was being collected by the Sri Lanka Customs, had been cancelled with effect from 22 March 2002 by the Gazette Extraordinary No.1228/14 dated 22 March 2002 issued by the Minister of Finance. Subsequently, an Excise Duty on Liquor had been



levied by the Gazette Extraordinary No.1992/29 dated 10 November 2016 issued by the Minister of Finance. Accordingly, the revenue collected relating to the year 2018 was Rs.53 million and as compared with the year 2017, it had been decreased by Rs.416 million representing 88.65 per cent.

- V. Out of the total net revenue amounting to Rs.716,277 million of the Sri Lanka Customs during the year under review, it was observed that a sum of Rs.66,318 million or 9.25 per cent representing the Excise Duty on Petroleum had decreased by Rs.7,664 million or 10.36 per cent as compared with the preceding year.
- Arrears of tax revenue should be speedily recovered.
- Audit observations are accurate.

### **3.2 Annual Performance Report**

In terms of Public Finance Circular No.402 of 12 September 2002, the performance report should be presented within 150 days after the closure of the financial year, to be tabled in Parliament. However, the Sri Lanka Customs had not presented the performance report of the year under review even by 15 June 2019 to be tabled in Parliament.

### 3.3 Procurements

The following observations are made.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
<p>The following observations had been made relating to the procurement of Rs.14 million carried out by the Services and Supplies Division for supply of uniforms and accessories for the officers of the Preventive Division of the Sri Lanka Customs.</p>		
<p>(a) The Shopping Method had been followed instead of National Competitive Bidding contrary to Guideline 3.4 of the Procurement Guidelines 2006. Moreover, according to Procurement Guideline 8.9.1 (b), no proper agreement was available for this procurement.</p>	<ul style="list-style-type: none"><li>- Performance of duties in an optimum and efficient manner by following the Government Procurement Guidelines to the maximum.</li><li>- Taking necessary steps by identifying parties who had not taken action in terms of provisions.</li></ul>	<p>Such deficiencies had occurred due to lack of adequate training in officers on the procurement process and the relevant officers have been instructed to act in accordance with the Procurement Guidelines and Financial Regulations.</p>
<p>(b) Deficiencies such as the undated letter sent to the bidder asking for quotations, failure in perfecting of bidding documents by the selected bidder,</p>	<ul style="list-style-type: none"><li>- Handling procurement activities so as to gain maximum benefit to the Government.</li></ul>	

submitting quotations through a personal letter by the bidder without the standard bidding documents, obtaining goods from time to time within the period of procurement by the Services and Supplies Division without a proper order, unavailability of evidence whatsoever that letters including standard bidding documents asking for quotations had been handed over and failure in carrying out taking over of bidding documents by registered post or by a sealed tender box. As such, it was not observed that this procurement has been carried out in terms of Guideline 6.3.1 of the Procurement Guidelines and Financial Regulations 695, 695 (2) and 695 (3).

- (c) Even though the requirement of uniforms of the
- Performance of duties in an optimum and efficient manner by
- Such deficiencies had occurred due to lack of adequate training in officers on the procurement

Preventive Division was for 713 officers as at 15 May 2018, the date of Audit, action had been taken to make purchases based on all Customs Officers for the year 2017/18 and as such, an expenditure of Rs.14 million had to be incurred for 59,523 items of uniforms. It was observed that 41,899 accessories valued at Rs.9 million or 70 per cent of that had been purchases made exceeding the requirement of the Preventive Division.

- (d) Even though the quantity to be purchased should be determined by the Preventive Division, it had been carried out by the Services and Supplies Division. Moreover, this purchase had been made “for all Customs Officers for the 03 ensuing years” by providing

following the process and the relevant Government officers have been instructed to act in accordance with the Procurement Guidelines to the maximum. Procurement Guidelines and Financial Regulations.

- Taking necessary steps by identifying parties who had not taken action in terms of provisions.
- Handling procurement activities so as to gain maximum benefit to the Government.

inaccurate information to the Preventive Division and the Technical Evaluation Committee.

- (e) The number of units included in bidding documents had been unusually increased from 20 per cent to 400 per cent even after selecting the bidder and action had been taken to purchase uniforms and accessories valued at Rs.2.3 million exceeding the amount approved by the Procurement Committee. Moreover, by 30 May 2018, a number of 41,303 accessories valued at Rs.8 million or 58 per cent of the above procurement value had remained in stores without being issued.
- Performance of duties in an optimum and efficient manner by following the Government Procurement Guidelines to the maximum. Such deficiencies had occurred due to lack of adequate training in officers on the procurement process and the relevant officers have been instructed to act in accordance with the Procurement Guidelines and Financial Regulations.
  - Taking necessary steps by identifying parties who had not taken action in terms of provisions.
  - Handling procurement activities so as to gain maximum benefit to the Government.

### 3.4 Assets Management

The following observation is made.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
<p>It was observed that out of a housing complex comprising of 18 Government quarters located on Morgan Road in Slave Island belonging to the Sri Lanka Customs only 08 houses remain at present and that the other houses had been destroyed. Moreover, an external party had illegally constructed 02 houses on this land belonging to the Sri Lanka Customs and obtained water and electricity facilities. However, it was observed that steps had not been taken to demolish those unauthorized constructions. In the year 2017, two houses of this housing complex had been reconstructed by incurring an expenditure of Rs.607,319 and 06 beds and 12 mattresses had been purchased by spending sums of Rs.411,000 and Rs.60,000 respectively. Nevertheless, it was observed that these 02 houses had not been occupied even by the date of Audit (May 2018).</p>	<p>- Action should be taken to prevent misuse of state property, safeguard and utilize the property for productive purposes.</p>	<p>Arrangements had been made to provide the house bearing No.40/11 located on Morgan Road in Slave Island for 12 officers. However, it was subsequently informed that the said house was unnecessary due to transfers of those officers. At present, action is being taken to provide these houses to Customs Officers.</p> <p>A study is being carried out as well for constructing a training centre for Customs Officers after reconstructing the destroyed property.</p> <p>A complaint had been lodged at the Slave Island Police on 16 January 2017 under Numbers CIB &amp; 320/138 requesting to evacuate the unauthorized occupants residing on the land belonging to the Department of Customs located on Morgan Road. The Divisional Secretary, Colombo had been informed thereon. Further, the Deputy Inspector General of Police (Western Province – South) has been requested by my Letter No.LOG/S/04-2016 dated 15 June 2017 to take action in this connection.</p> <p>The report obtained in this connection from relevant</p>

Grama Niladharis has been sent by the Divisional Secretary, Colombo presently. Accordingly, necessary future action is being taken by now.

### 3.5 Irregular Transactions

The following observations are made.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
(i) According to regulations made by the Controller of Export and Import, in the importation of old motor vehicles which had expired the useful life, an import and export licence should be obtained. However, motor vehicles had been released from Customs in 11 instances without so obtaining a proper licence.	- Taking action in terms of prevailing provisions and in terms of provisions in the Establishments Code by checking on officers who fail to do so.	
(ii) Even though a licence had been issued by the Controller of Export and Import, the goods	- Taking necessary steps to formalize the situation and to check properly on parties	

should be released from Customs after issuing a **Debit Note**, by the Controller of Export and Import that exportation had been carried out according to conditions in the licence as due, motor vehicles had been released from Customs in 04 instances in which Debit Notes had not been issued.

who had acted improperly.

Replies not given

(iii) It was observed that the tax revenue deprived of due to clearing under special purpose vehicle class (8705.90.94) by changing the Customs Harmonized System Code for a truck used for road constructions imported based on Licence No.IM-2-150-2018-000397-0001 issued to an importer for purchase of 02 truck vehicles, was Rs.1,315,381.

(iv) The Mitsubishi **Fire Extinguisher vehicle** bearing chassis No.FKH17F2-720019 had been received as a donation and as it was a motor vehicle manufactured in the

- The policy of recovery of Excise Duty on Motor Vehicles should be properly implemented, recovery of losses from responsible parties due to failure in doing so

- Import licences should be obtained from the Import and Export Controller in the importation of old motor vehicles and the recovery of the loss from responsible

No problem had arisen from the Sri Lanka Ports Authority relating to the Mitsubishi **Fire Extinguisher vehicle** bearing No.KF417FZ – 720019. This motor vehicle had been received to the Sri Lanka



year 1988, it should be imported with an import licence. However, it had not been carried out in such manner and as a result, this motor vehicle which should have been prohibited in the year 2015, had been ordered to be confiscated after 03 years.

parties due to failure in doing so.

Army as a donation and it was an old motor vehicle manufactured in the year 1988. As such, the Import and Export Controller had not issued an import licence for clearance based on the reason that the running condition and function of the motor vehicle is not satisfactory. The function of the battery of this motor vehicle had been weak even when imported and it was understood that taking the motor vehicle into the custody of the Customs and transporting it to the motor vehicle yard at Mattakkuliya was a practically difficult task. Moreover, when transferring a motor vehicle at the Hambanthota Port and transporting it to Colombo, an additional motor vehicle, drivers, assistant officers and necessary equipment and tools should be kept ready. As such, it was decided to transport all three motor vehicles at once due to the low cost rather than transporting them separately in three instances.

Taking Mitsubishi Fire Extinguisher vehicle bearing Chassis No.KF417FZ-720019 into the custody of Customs without delay and taking action to hold a Customs inquiry thereon.

### 3.6 Transactions of Fraudulent Nature

-----

Details on transactions of fraudulent nature observed during the course of Audit are as follows.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Chief Accounting Officer</u>
(i) It was observed that the Customs Inquiries commenced relating to three importers who had imported containers of 34,640 kilograms of Ginger to the C.I.F value of Rs.2,148,757 imported without the approval of the Plant Quarantine Service of the Department of Agriculture, had been concluded without taking any legal action whatsoever. Even though the documents submitted to Inquiry Officers relating to approvals of import by the relevant importers had been forged, Customs Officers had not taken action to ascertain the accuracy of those documents.	- Tax policy of the Government should be implemented by studying in depth the Customs law and import and export laws, rules and regulations relating thereto and other legal provisions and steps should be taken by checking on officers who do not confirm the accuracy of documents and recovery of loss occurred, from responsible parties.	
(ii) The Preventive Division of the Sri Lanka Customs had commenced a Custom Inquiry relating to 04 motor vehicles older than 10 years imported to this country without obtaining approval of the Department of Import and Export Control. However, the Customs officers had taken action to release the said motor vehicles again based on the forged documents	- Recovery of the loss occurred due to failure in confirming the accuracy of documents to the Government from responsible parties by looking into it properly and taking action according to the prevailing law in the country on the party that submitted forged documents.	Preliminary investigations and Customs investigation have been commenced in this connection.

submitted by the importer.

- (iii) In the process of import and export of goods, an adequate internal control methodology relating to examination of documents and physical verification of goods had not been implemented by the Sri Lanka Customs. As such, a risk of a close relationship between the Wharf Clerks who act as clearing agents and the Customs Officers was observed. As a result, loss of tax revenue to the Government due to irregularities such as underassessment of goods, failure in declaring imported goods properly and it was revealed continuously by Audit queries and reports of a possible risk in non-revelation of illegal and prohibited goods. However, it was also observed that the Sri Lanka Customs had not taken action to pay adequate attention to correct that situation and to introduce a new methodology. It was observed during the course of Audit carried out in the year under review in this respect that an importer had got 06 containers of perfume valued at Rs.39,335,091 in 6 instances stating them to be western medicine. As such, a
- Attention of the officers should be strictly paid on frauds on Custom duty, in various types committed by the importers and safeguard the Revenue.
  - Taking necessary steps by looking in depth into the parties who had encouraged frauds.
  - Taking disciplinary and legal action in terms of the Establishments Code Part II.

revenue of Rs.40,761,600 had been deprived of to the Government of Sri Lanka. It was a questionable matter in Audit whether such an irregularity could be carried out without a connection of the Customs officers who carried out the examination of documents and the physical verification of goods of the Sri Lanka Customs.

(iv) Even though an expenditure of Rs.1,125,496 had been incurred in the year under review from the Custom Officers Management and Compensation Fund relating to foreign training of three officers, it was observed that a sum of Rs.8,333 had been obtained as overtime by them reporting that they had served in the Department during the period in which the said foreign workshops were held.

- If an irregularity had been carried out, action should be taken in terms of existing provisions.
  - Regularization of internal control relating to staff administration
  - Taking action in terms of provisions of the Establishments Code relating to obtaining of public money illegally by submitting forged information.
- The Overtime Register has been approved by each Director that the officers who participated for the foreign training programmes (Duty) mentioned in the Audit Query, had engaged in overtime during the period abroad and the relevant Directors have been questioned in this connection by now.
- Moreover, action had been taken to recover the overtime paid during the period abroad from the officers who had participated for foreign training programmes.

### 3.7 Uneconomic Transactions

The following observation is made.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
A Salt Yard with a store located in the Mattakkuliya	- Parties responsible for the safety of	These motor vehicles will be either sold or disposed of

area had been obtained from the private sector for keeping motor vehicles and containers taken into custody of Customs relating to Customs investigations as well as confiscated vehicles and containers at a monthly rental of Rs.1 million. A sum totalling Rs.29.6 million had been paid from the Consolidated Fund as monthly rents for the period from the year 2016 to October 2018 therefor. It was observed that 146 motor vehicles of various types retained in the custody of Customs during a period from 1 year to 21 years, had been kept in this yard and most of the motor vehicles are decayed/ being decayed in an unusable manner and it was further observed that the possibility of obtaining an income by disposing of those vehicles is uncertain. It was also observed that the Sri Lanka Customs had not taken action even by the date of the Audit examination to dispose of these vehicles or to take any other appropriate measure.

motor vehicles within the following 03 months should be identified.

- Speeding up of inquiries and minimizing the possible loss occurred by keeping motor vehicles unnecessarily.
- Legal action should be taken speedily.
- The attention of officers should be drawn to acquire an adequate economic benefit for the payments made by Government funds.

### 3.8 Management Weaknesses

The following observations are made.

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
(a) An inquiry had been held by the Sri Lanka Customs Central Investigation Bureau	- Taking necessary steps after holding an inquiry to verify whether action had	Replies not given

in respect of a person who had attempted to take foreign currency valued at Rs.16.8 million Sri Lankan Rupees on 28 June 2015 through the Departure Terminal of the Bandaranaike International Airport, Katunayake. At the conclusion of the investigation, the penalty of Rs.3 million imposed on the relevant party had been decreased by the then Director General of Customs and it had been pointed out by the Audit Query No.

PUR/A/CUS/2015/09 dated 02 March 2016 that this relaxation had been contrary to the Customs Ordinance. Moreover, several parties, challenging the decision made, had taken action to present a petition to the Court of Appeal. Even at the conclusion of the hearing of the petition, it had been decided that the relaxation made by the Director General of Customs is contrary to the Customs Ordinance.

Accordingly, action had not been taken to recover the sum of Rs.1.5 million lost due to the decision of the

- been taken illegally
- Taking maximum action to prevent such illegal actions

Director General of Customs.

- (b) It was observed that a tax of approximately Rs.6,130 million had been deprived of due to failure in releasing the oil by the name Palm Olein imported during the period between 2013- 2016 by 02 leading importers of palm oil in bulk, under an accurate Harmonized System Code. Even though a Customs investigation had been commenced by the Intelligence Unit of the Sri Lanka Customs, the Commodity Classification Branch of the Sri Lanka Customs and NC Committee officers had acted on the basis that the importers are innocent. As such, the conclusion of the Customs investigation had delayed. Even though it had been observed according to the confirmations of the World Customs Organization that the tax revenue of the Government had been deprived of due to these imports, no adequate action had been taken by the Sri Lanka Customs to recover the said moneys.
- Providing solutions within a specific period for enquiries received to the **Harmonized Code Division** or the NC Committee.
  - To emphasize that the entire staff of the Sri Lanka Customs should act with the objective of mutually securing the Revenue.
  - Taking strict legal action against officers, wharf clerks and other parties who had encouraged Customs offences revealed by Customs investigations and looking into the possibility of recovering the loss occurred to the Government.
- Replies not given

- (c) In terms of the Plant Protection Act, No.33 of 1999 and Gazette Extraordinary Notification No.165/1 of 02 November 1981, Customs officers had released 821,650 kilograms of ginger to the C.I.F value of Rs.52 million imported to this country without the approval of the National Plant Quarantine Service.
- It was observed that such irregularities are carried out due to weaknesses in other internal control including the lack of a computerized connection between the Sri Lanka Customs and the Plant Quarantine Service relating to purposes such as import approval on plants and plant parts imported to Sri Lanka, examination of documents and physical verification, lack of awareness of officers on prevailing laws, lack of a methodology for comparing the quantities imported and failure of the Customs Officers in the performance of duties in terms of procedures
- A computerized connection should be maintained between the Sri Lanka Customs and the Plant Quarantine Service relating to purposes such as import approval on plants and plant parts imported to Sri Lanka, examination of documents and physical verification.
- Replies not given
- The Customs officers should be made aware of the prevailing laws.
  - Proper steps should be taken relating to such irregularities committed due to weaknesses in other internal control including non-preparation of a methodology for comparing the quantities imported and non-performance of duties by Customs officers in terms of procedures.



- (d) In terms of Section 103 of the Customs Ordinance, Gazette No.1520/17 dated 26 October 2007 and Internal Circular No.218 (F) dated 31 December 2002 etc., the overtime for Custom duties performed on ships arriving at the Colombo Port is computed on the number of containers on those ships and credited to the Customs Overtime and Cargo Examination Fees Fund. However, it was observed that there are many deficiencies relating to records and methodology which should be maintained according to laws, rules and regulations effective thereto.
- In terms of Section 103 of the Customs Ordinance and Gazette No.1520/17 dated 26 October 2007 and Internal Circular No.218 (F) dated 31 December 2002, instructions and methodologies should be followed.
- That necessary revisions be made in the Gazette Notification relating to a sum of Rs.100,000 obtained by the shipping agency as deposits, the recovery of overtime from shipping agencies under a computerized system and that according to Departmental Order No.DOPL 218 F and the matters pointed out by Audit observations, the future step will be removed from the Preventive Division and be assigned to the Port Controlling Unit so as to minimize those issues and that supervision of proper sending of shipping documents daily to the Customs Port Controlling Unit.
- (e) The opportunity had been given to release the imported goods temporarily which are delayed in receiving the standard certificate from the Sri Lanka Standards Institute, on personal bonds to stores of importers. However, it was observed that those goods had been released to the local market before receiving standard certificates. Moreover,
- Customs Officers should contribute actively towards the import export process.
  - Sri Lanka Customs should directly intervene in avoiding the delay in standard certificates.
  - Keeping the goods released from the harbor under the supervision of Customs Officers until standard
- The Customs investigation relating to the said incident (ENSP/CPU/044/2017/CCR-2466) is carried out by the Consumer Protection Division of the Sri Lanka Customs. A bond of the Company has been registered under No. GLII/CG/261 so that the importer is bound with the responsibility of not releasing these imported goods to the local market until the standard thereof is confirmed.
- Office Circular No.439 is

it had been revealed by past audit queries and reports that the supervision of the Sri Lanka Customs in this connection is inadequate.

Nevertheless, action had not been taken by the Sri Lanka Customs to correct the said situation. Such a situation was observed in the year 2017 as well and even though 913 units of Cut Edge Salad Bowls valued at Rs.702,084 imported by an importer had been released to the local market before obtaining standard certificates. However, the Standards Institute had confirmed that the said goods were not complied with the standards.

certificates are issued.

- Taking proper steps relating to sub-standard goods.
- Taking legal action relating to parties who have released sub-standard goods to the market.

applicable for personal bonds obtained from importers for the requirement of recovery of Customs duty if necessary to be later recovered on certain reasons. As these goods are released on the recommendations of the Sri Lanka Standards Institute, I observe that the above circular is irrelevant with the matter in question. It is understood that the Consumer Protection Division of the Sri Lanka Customs is well aware of the arrival of sub-standard goods to the Sri Lankan market and of the adverse effect thereof on the consumer and it is also understood that only imposing of penalties for offences of this nature is inadequate. As such, discussions are already in progress with the Sri Lanka Standards Institute, Consumer Affairs Authority, Ministry of Health and Indigenous Medicine and the Ministry of Finance and Mass Media on the possible steps to be taken thereon.

- (f) Many internal control weaknesses such as inadequate supervision, improper maintenance of attendance registers, leave registers, overtime registers etc., overtime payment relating to periods of officers abroad, payment of overtime even for holidays on which keys had not been taken in charge for opening various divisions of the

- Acting in terms of provisions of the Establishments Code and the Financial Regulations regarding financial irregularities
- Regularization of unsatisfactory internal control relating to staff administration.

Our special attention has been drawn to preparing a new methodology in payment of overtime by reviewing payment of overtime in the Department of Customs.

Explanations have been called from Directors who had sent relevant overtime registers that the officers who had participated in foreign training programmes as mentioned in Audit Queries had engaged in overtime during the period abroad and action has been

Customs were observed during the course of Audit carried out on the arrival and departure of officers. Unusual situations such as reporting to duty on all 365 days and engaging in overtime for 24 hours were observed as well.

In such a situation, the finger print records which is the main evidence confirming reporting to duty relating to the expenditure totalling Rs.2,297,594,242 comprising of Rs.1,466,843,695 from the Consolidated Fund as salaries, wages, overtime, holiday pay and incentive and Rs.830,750,547 from the Information Communication Technology Fund as Customs overtime cargo examination fees in the year 2018 for 2,313 officers of the Sri Lanka Customs, were not made available to Audit.

taken to immediately recover overtime paid during the said periods from officers who had participated in foreign training programmes.

**4. Achievement of Sustainable Development Goals**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
Every Government institution should act in terms of the 2030 “Agenda” of the United Nations for Sustainable	The Department should take steps to act in accordance with the State Policy and	Replies not given

Development Goals and the the relevant Act.  
Department of Customs had  
not been aware of the manner  
in which to implement the  
functions relating to the year  
under review that come under  
its scope.