

Head 247 - Sri Lanka Customs

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Customs for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 . The Summary Report containing my comments and observations on the financial statements of the Sri Lanka Customs was issued to the Accounting Officer on 06 July 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Sri Lanka Customs was issued to the Accounting Officer on 30 September 2020 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Sri Lanka Customs as at 31 December 2019 and its financial performance and cash flow 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 responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Chief Accounting Officer and the Accounting Officer are responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Sri Lanka Customs in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

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

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

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Sri Lanka Customs, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Sub-section 6 (1)(d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had not been corrected in respect of the observations shown in Paragraphs 1.6.3 (a) of this report.

1.6 Comments on Financial Statements

1.6.1 Non - compliance with the Provisions of the Financial Statements Circulars

Although financial statements should have been prepared in terms of State Accounts Circular No. 271/2019 of 03 December 2019, an instance that deviates from those requirements is shown below.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>Information on Deposit Accounts of the Department and summarized information on the transactions made in each deposit account by Form No. ACA 4 had to be furnished separately as per Departmental Books and Treasury Books in terms of State Accounts Circular No. 271/2019 dated 03 December 2019. Nevertheless, the Format ACA 4 which had been submitted by Sri Lanka Customs in contrary to those terms had been prepared only on the basis of information appeared in the Treasury printouts and as a result, it was observed during the audit that the information on existing balances as per the Departmental Books was not reported .</p>	<p>Actions should be taken in terms of the Circular issued by the Department of State Accounts annually for the preparation of Annual Financial Statements.</p>	<p>Since it was not specifically mentioned as the balance as per Departmental Books in ACA 4 Format, the balance in Treasury computer printout has been shown therein. It has been taken into notes that to indicate as the balance as per the Departmental Books in the ACA 4 Format, from the year 2020 .</p>

1.6.2 Statement of Financial Performance

Audit Observation

The expected income from the Vehicle Entitlement Levy had been stated as Rs.2,200,000,000 under the Revenue Code No. 1003.07.16 of the Revenue Estimate for the year 2019 and a sum of Rs. 1,357,955,586 had been collected as actual income. Instead of showing it in the accounts under Sri Lanka Customs Head 247 , it had been shown as Revenue from Other Heads. Further, the reasons for the difference in between the estimate and the actual income had not been given.

Recommendation

The Revenue Codes should be identified in accordance with the provisions of the Acts and Circulars and bring into accounts accurately.

Comments of the Accounting Officer

The audit observation is correct. Although this Revenue Code has been transferred by the Circular dated 30.04.2019, as a result of not transferring of this revenue by the Department of State Accounts to the Head 247 of Sri Lanka Customs, this mistake has occurred by adding values to the final account based on Monthly Account Summaries of Head 247 . It has been taken into notes to make arrangements to include into the account for the year 2020 by making corrections by the Department of State Accounts. The reason for this variability was the decrease in the volume of vehicle imports. Vehicle Entitlement Levy is applicable under the Harmonized Systems Classification Code No. 8701, 8703, 8704, and 8711 of the Register of Tariff. Vehicle Entitlement Levy is determined on the number of vehicles imported (Rs. 2000 per vehicle) and that is a 52% decrease. It had decreased with respect to the above classification numbers. This is more clear as compared with the Estimate.

1.6.3 Lack of Evidences for Audit

The following audit evidences had not been furnished.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The fingerprint records were not furnished to audit as an evidence of confirmation in respect of the expenditure totalled to Rs.2,882,672,067 made for 2473 officers of the Sri Lanka Customs in the year 2019 as salaries, wages, overtime, holiday pay and incentives from the Government Consolidated Fund amounting to Rs.1,795,330,536 and a sum of Rs.1,087,341,531 paid through Customs Overtime Cargo Examination Fees and Information Technology Communication Fund to ascertain whether the officers had reported for duties.	(i) The general orders of the Government and the Directives of the Committee on Public Accounts should not be neglected. (ii) Arrangements should made in accordance with the provisions of the Establishments Code and Financial Regulations with regard to financial irregularities. (iii) Regularization of employee management and internal control.	The procurement procedure for the purchase of fingerprint machines has been completed and the measuring works have been carried out for the installation of the machines. Accordingly, it is observed that this issue can be resolved in future.

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| <p>(b) Even though it was reported that, there were about 16 instances where actions were not taken to get released the bank guarantees by paying the due tax during the period from 2004 to 2007, the information on the number of persons registered to release goods on bank guarantees and the number of persons who acted to release them during that period were not submitted for audit.</p> | <p>Report information to the Auditor General promptly in this regard and draw attention on the Provisions in the Audit Act.</p> | <p>It was ascertained that upon inquiries, there was no information on the relevant document or files after the distribution of goods from the old office premises to the new office building. It has been made notes to find out about it.</p> |
| <p>(c) A number of 4059 Sri Lankans in abroad had obtained Unaccompanied Passenger Baggage (UPB) facility through Laksiri Seva Warehouse and another 8240 passengers had received the Gift Service facility as well in the year 2019. The revenue collected by Sri Lanka Customs was Rs.17,625,020 and Rs.31,840,355 respectively therein. Nevertheless, there were no evidences whether a sales invoice or any other document had been submitted to confirm the value of these items which were sent as Unaccompanied Passenger Baggage (UPB) and Gifts . The goods had been assessed at the discretion of the customs officers without complying with Departmental Order (DOPL) 790 to determine the customs value of goods. As a result, sufficient evidences were not furnished to audit to confirm whether the revenue receivable actually received.</p> | <p>Take actions in accordance with Departmental Order 790. The records should be maintained as it should complied with DOPL - 790 and submit them for audit.</p> | <p>The goods send as UPB or gifts are brought by overseas travellers for personal use and more often they are used goods or not and they do not have sales invoices or other documents for those items. Examining of those goods and assessing the value or classifying of them is being conducted under the supervision of the Assistant Collecting Officers who have about 08 years of service experience and Customs Superintendents who have 25 years or more of service experience as well as valuation duty experience. Similarly, it is kindly informed you that this is also being done under the supervision of a Deputy Director of Customs.</p> |
| <p>(d) As a result of non-payment of stipulated taxes and non-fulfillment of statutory requirements out of the luggage / goods sent to the country through the Laksiri Seva Warehouse (UPB Warehouse), the evidences stating the relevant requirement were</p> | <p>It should act in accordance with Departmental Orders 790. Submission of evidences to audit that proper procedure has been</p> | <p>It is kindly informed that the arrangements have been made to state the relevant numbers of the certificates pertaining to the release of those goods from 01.02.2020.</p> |

fulfilled in the event of the items that have not been temporarily released but release subsequently had not been furnished to audit.

- (e) A number of 49,910 containers had been received to Rank Container Terminal (RCT) from January to May 2019 and 44,305 of containers out of that had been inspected at the Out Panel. A number of 5,605 containers had been scanned at the RCT . The evidences of the 44,305 containers which had been inspected at the Out Panel had not been furnished to ascertain whether they were inspected in accordance with the Customs Ordinance and Departmental Regulations (DOPL) .

- (f) Any written evidence showing the way of assessing the value of the goods offered for sale by calling tenders by the Central Disposal Division of Sri Lanka Customs were not available in the relevant Division during the year 2019 . Accordingly, it was impossible to check whether the relevant taxes have been computed accurately.

followed.

Taking actions in accordance with Departmental Orders, keeping records for following proper procedures and furnishing them when requested.

Taking actions in accordance with Departmental Orders, keeping records for following proper procedures and furnishing them when requested.

All the containers cannot be inspected. Containers do not arrive at the yard at once and are brought to the yard from time to time. The permission has been given for Out Panel inspections in accordance with the importer's past information, the nature of the goods being imported, and the risk control methodology of the Risk Management Unit. A part of these containers are sent for inspection inside the RCT yard. The remaining number of containers are released to the Out Panel on that inspection certificate. These containers are released for Out Panel on personal guarantee, especially when required to be certified by other agencies. In Out Panel, all the containers are not inspected at once and only selected number of containers are checked randomly.

Determining the value of the goods offered for sale through tenders have been carried out considering the market value of the relevant goods during that period and the value of these items when browsing the internet. Sometimes, the most recent submission of cusdec for the

relevant items is checked from the Asycuda Database and the relevant values have been taken into consideration to determine the value of the goods.

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| <p>(g) A total income of Rs.33,845,962,239 had been collected through customs investigations by Sri Lanka Customs during the period of 04 ½ years from 01 January 2015 to 30 June 2019. Nevertheless, the evidences relating to substantiate the penalty income, sales revenue, confiscation income or the value of the goods based on determining the duties and other revenue, the manner in which those values were determined and the deprived duty revenue etc. had not been furnished to audit from any Division of the Sri Lanka Customs.</p> | <p>Maintenance of records and documents properly so that the accountability can be checked.</p> | <p>The attention has been drawn on your observations regarding the ECCR Information System and actions will be taken to make aware the relevant Divisions about the necessary steps to be taken.</p> |
| <p>(h) Twenty eight payment vouchers totalling to Rs. 2,725,768 had not been furnished to audit even by 16 June 2020 in terms of Financial Regulation 272 (3) .</p> | <p>Arrangements should be made in accordance with Financial Regulation 272 (3) .</p> | <p>As a result of failure to complete payments, the vouchers could not be submitted to audit .</p> |

1.6.4 Certifications to be made by the Accounting Officer

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The Chief Accounting Officer and Accounting Officer should ensure that an effective internal control system for the financial control exists and carry out periodic reviews to monitor the</p>	<p>Arrangements should be made in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>	<p>An effective internal control system is being maintained for financial control such as delegating powers, delegating duties in a manner that delegates</p>

effectiveness of such systems in Sri Lanka Customs in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 and accordingly make any alterations as required for such systems to be effectively carried out. Further, even though such reviews should be made in writing and submitted a copy to the Auditor General, the statements that such reviews were made so had not been furnished to audit.

responsibilities of transactions among several officers under Financial Regulation 135 with regard to Finance Division. However, it has been noted to act in accordance with the provisions of the Audit Act in future.

1.6.5 Non - compliance with Laws, Rules and Regulations

The instances of non-compliance with the provisions in the Laws, Rules and Regulations observed during the audit test checks are analysed below.

	Observation	Recommendation	Comments of the Accounting Officer
Reference to Laws, Rules and Regulations	Value	Non-compliance	
(a) Schedule (f) of the Extraordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka No. 1520/17 dated 26 October 2007	5,103,000	Even though Sri Lanka Customs had assigned 31 permanent staff and 12 Roster Staff to deploy in the duties of the Bonded Warehouses maintained by Laksiri Seva and Trico Warehouses, actions had not	Charging the prescribed fees as per the circular. In addition to the Peliyagoda Branch, the Laksiri Seva Warehouse clears goods at its Nindavur Branch as well. The staff of the Peliyagoda Branch are attached for the clearance

been taken to recover the overtime charges to be recovered for deploying of 12 Roster Officers.

activities. Although the total permanent staff is 16, the goods are inspected by the 07 Assistant Collecting Officers in the staff. They are also attached to the duties of Nindawuru Branch for 3 days. Therefore, it is kindly informed that the Roster Staff should be deployed.

**(b) Establishments 159,600
Code of the Democratic Socialist Republic of Sri Lanka**

(i) Sections 1.1 and 4 of Chapter XIV

The travelling expenses to an officer who has to travel to perform his duties is required to pay an allowance as per the provisions set out therein and to cover the combined expenses for subsistence and accommodation for the time of departure from his work place for duty.

Nevertheless, ad hoc sub- imprests had been issued to officers of the Sri Lanka Customs to

It should not make payments in contrary to the provisions of the Establishments Code and refund of payments .

Advance payments have been made and relevant expenses have been incurred when several officers are required to inspect various activities at the Valvettithurai and Hambantota Customs Offices of Sri Lanka Customs.

cover their expenses on 06 occasions on official travels in contrary to the aforesaid Sections.

(ii) Paragraph 1.3 of Chapter XXVIII

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Six Registers of Attendance maintained for officers belonging to staff of the Sri Lanka Customs attached to the Arrival Terminal at the Katunayake Bandaranaike International Airport had not been regularly monitored by a staff officer.

Actions should be taken in accordance with Chapter XXVIII of the Establishments Code.

Necessary instructions have been given to maintain the Register in which the arrival and departures are recorded in the Passenger Services (Katunayake) Division and it is monitored by the Director of Customs (Passenger Services) and the Deputy Director of Customs.

(iii) Paragraph 04 of Chapter XXIV

3,925,507

(i) Actions had not been taken to recover the loan balances of retired officers amounting to Rs.2,858,634 less than 01 year, Rs.(1,600) in between 2 and 3 years, Rs.5,685 in between 4 and

Actions should be taken in accordance with Chapter XXIV of the Establishments Code.

Issuance of Retirement Grants of Officers with debt balances below 01 Year had not been completed. However, Rs.1,038,029.08 has been recovered from

5 years and Rs.1,062,789 for more than 5 years.

those loan balances by 29.06.2020.

Actions will be taken to pay off the balance in between the 02 and 03 years amounting to Rs.1,600 within the year 2020 .

1,587,019

(ii) Actions had not been taken to recover the loan balances of the suspended officers and there were debt balances of Rs.68,800 in between 03 and 04 years, Rs.106,220 in between 04 and 05 years and Rs. 1,411,999 for more than 05 years out of this.

Actions should be taken in accordance with the Establishments Code XXIV .

Although it has been tried to find the relevant details of officers over 05 years in the Section, some personal files could not even be found. It has been very difficult to find the details since some loan balances were more than 25 years old.

It has become difficult to find information on suspended officers.

(c) **Financial Regulations of Democratic Socialist Republic of Sri Lanka**

(i) **Financial Regulations 755**

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Even though the Customs officers who had attached

Actions should be taken in accordance with

Answers had not been given for Laksiri and Trico

		<p>to the Laksiri Warehouse, Trico Warehouse (UPB Warehouses) and the Katunayake Air Cargo Clearance Center (Air Cargo) had been transferred several times during the year, any written handing overs or undertaking of the goods had not been carried out at the time of doing such transfers of the officers in charge of the warehouses .</p>	<p>Financial Regulation 755</p>	<p>Warehouses. As per the answer given by the Katunayake Cargo Clearance Centre , in assigning responsibilities to the successor officer by one officer after the inspection of the goods, he was unable to obtain a receipt from the officer in charge . Actions will be taken in accordance with Financial Regulations 755 in future.</p>
<p>(ii) Amendments to the Financial Regulations 371 (2) by the Circular of the Secretary to the Ministry of Finance No. 3/2015 dated 14 July 2015</p>	<p>(i) 1,508,000</p>	<p>The maximum amount of ad hoc sub-impressts that can be given for a particular purpose is stated as Rs.100,000. Nevertheless, the Sri Lanka Customs had incorrectly misinterpreted the aforesaid "for a particular purpose" and ad hoc sub-impressts had been issued exceeding the maximum amount for the same purpose. The doubt that the</p>	<p>Proper steps should be taken against the officers who had approved, recommended and obtained the payment in contrary to the Circular.</p>	<p>The audit observations are accurate.</p>

advances had been issued to more than one officer could not be ruled out during the audit therein. Accordingly, ad hoc sub-impressts valued at Rs.1,508,000 had been issued without the recommendation of the Accounting Officer or the prior permission of the Department of Treasury Operations during the year 2019 .

(ii) Rs.100,000

Prior permission of the Department of Treasury Operations should be obtained by requesting with the recommendation of the Accounting Officer with sufficient facts in cases where the ad hoc sub-impresst limit exceeds Rs.100,000.

Nevertheless, in contrary to that, ad hoc sub-impresst amounted to Rs.1,000,000 had been issued to the Co-operative Societies and the Private Sector for

Proper steps should be taken against the officers who had approved, recommended and obtained the payment in contrary to the Circular.

Answers have not been given.

the purpose of obtaining fuel for vehicles owned by the Sri Lanka Customs for the year 2019.

		(iii)549,854	Seventeen officers had obtained Rs. 1,290,000 as ad hoc sub-impresst and withheld the remaining amount thereof from 04 working days to 227 days.	Taking proper steps in respect of the relevant officers.	The audit observations are accurate.
(iii)	Amended Financial Regulations 371 (5) by the Circular of Secretary to the Ministry of Finance No. 3/2015 dated 14 July 2015	2,700,827	Although it had been stated that, after the issuance of an sub-impresst, that sub-impresst should be settled to the Accounts Division within 10 days after the completion of the relevant task, the ad hoc sub-impressts obtained on 25 occasions had not been settled within the stipulated time period by the officers who had obtained those ad hoc sub-impressts. It was observed that the delay period had ranged from 25 days to 234 days.	Taking proper steps in respect of the relevant officers.	Agree with the audit observations.

(d)	Financial Regulations 485 (4) and Paragraphs 1: 1: 6 and 1: 1: 7 of the Budget Circular No. 118 of 01 October 2004	114,126	Although it should be ensured that there were no unresolved debts between the Departments after elapsing three months and since the transfer of an officer, there were unrecovered debts even if it had lapsed for more than 05 years.	Actions should be taken in accordance with circulars.	Necessary actions will be taken in consultation with the Department of State Accounts and to write off this debt balances balance from the Advances to Public Officers 'B' Account and to make the necessary adjustments to the account prepared for the year 2020 .
(e)	Public Finance Circular dated 22 May 2010 No. PF 443	500,000	Even though it had been stated that the filling stations owned by the Co-operative Societies should be given priority in obtaining the fuel requirements of the State Institutions as a solution to minimize the working capital problems of the Multi-Service Co-operative Societies, on the contrary, a sum of Rs. 500,000 had been provided by the Interim Imprest to be deposited in order	Action should be taken against the parties who acted in contrary to the circular in terms of the Establishments Code.	It has been informed the Sri Lanka Customs that super diesel should be used as fuel for 07 vans obtained under the Operating Leasing Scheme and to obtain fuel from C.F. de Mel & Sons because of the fuel stations belonging to MARKFED does not have super diesel at its fuel stations. Actions have been taken to increase the deposit to obtain

to obtain fuel from private filling stations by the Sri Lanka Customs.

fuel up to Rs.500,000 from C.F. De Mel & Sons after the suspension of providing fuel by MARKFED due to a fraudulent activity of the Sri Lanka Customs.

(f) Internal Circulars of the Sri Lanka Customs (DOPL)

(i) Paragraph No. 790 (DOPL) (02) 605,796,308

There was no evidence whatsoever available in relation to the goods valued at Rs.605,796,308 carried through the arrival terminal at the Katunayake Bandaranaike International Airport by the passengers during the period from 01 January 2019 to 30 November 2019. Further, purchase receipts pertaining to aforesaid items that should have been submitted at a minimum, sales invoice including documents containing information on

Relevant information should be obtained and maintained accurately.

The Database is based on determining the value of goods of the Valuation Division and these activities are carried out in accordance with the powers vested in the Chief /Assistant Collecting Officers.

goods or remittance of foreign exchange which were required to be submitted in accordance with Section 790 (02) of the Customs Internal Circular to verify the value, had not been submitted to Audit.

(ii) Paragraph No. -
790 (DOPL) (04)

There were occasions when the customs officers had determined the value at their discretion without based on the database on the value of goods maintained by the Valuation Directorate of the Sri Lanka Customs to determine the value of commercial items carried by passengers through the Arrivals Terminal at Bandaranaike International Airport, Katunayake.

Relevant information should be obtained and maintained accurately.

The database on valuing of goods in the Valuation Directorate is based to determine the price and these activities are carried out in accordance with the powers vested to the Chief Assistant Charging Officers.

2. Financial Review

2.1 Revenue Management

2.1.1 Collection of Arrears Income

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) The total arrears of taxes valued as at 31 December 2019 was Rs. 22,933,854,691 and out of that, 28 per cent or Rs.6,370,798,202 from arrears of Duty on Imports, 26 per cent or Rs.6,044,842,097 from arrears of Excise Duty on Petroleum, 20 per cent or Rs.4,488,152,878 arrears of Special Commodity Levy, 13 per cent or Rs.2,870,623,881 from arrears of Port and Airport Development Levies and 7 per cent or Rs.1,716,039,908 from arrears of Import Cess and 6 per cent or Rs.1,314,930,120 from arrears of Excise Duty on Motor Vehicles revenues consisted of.</p>	<p>Necessary steps should be taken to collect the revenue receivable to the Government without delay.</p>	<p>Agree with the observations.</p>
<p>(b) Sixty two per cent of the total tax revenue or Rs.14,330,919,797 represents the arrears tax value of the year under review and it was observed that the 38 per cent or Rs. 8,602,934,893 was the balance outstanding for the past 19 years.</p>	<p>Actions should be taken to act in accordance with the instructions given in Financial Regulations 128 and Public Finance Circular 01/2015 .</p>	<p>Agree with the observations. Action is being taken to recover the above arrears of tax revenue by informing the relevant institutions.</p>

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| <p>(c) Twenty six per cent or Rs.6,044,842,097 represents the tax value out of the total tax revenue of the year under review and had remained as Excise Duty on Petroleum revenue for the year 2019 and that was the arrears balances pertaining to fuels released by the Ceylon Petroleum Corporation without paying taxes.</p> | <p>Actions should be taken to act in accordance with the instructions given in Financial Regulations 128 and Public Finance Circular 01/2015 .</p> | <p>Agree with the observations. Actions are being taken to recover the above arrears of tax revenue by informing the relevant institutions.</p> |
| <p>(d) The balance of Rs.1,630,549,991 remained outstanding as at 31 December 2019 under fines and forfeits had not been included in the arrears report submitted to the Auditor General .</p> | <p>Actions should be taken to act in accordance with the instructions given in Financial Regulations 128 and Public Finance Circular 01/2015 .</p> | <p>There is no Revenue Head or Receipt Head as fines and forfeits. The balance shown here cannot be identified. Explanations can be made if details are provided.</p> |
| <p>(e) Adequate actions had not been taken in respect of the estimation, collection and reporting of revenue as well as the collection and reporting of arrears in accordance with the provisions in Fiscal Policy Circular No. 01/2015 issued by the Secretary to the Treasury on 20 July 2015 .</p> | <p>Actions should be taken to act in accordance with the instructions given in Financial Regulations 128 and Public Finance Circular 01/2015 .</p> | <p>Answers have not been given.</p> |

2.1.2 Collection of Revenue

Although the total revenue estimated in respect of 13 Revenue Codes for the year under review was Rs. 862,815,000,000, the net income collected during the year was Rs. 619,458,070,988 that was 72 per cent out of estimated income . The audit observations related to the Revenue Codes which could not be able to achieve the expected revenue level are shown below.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) Receipts of Revenue The total of the revenue collected as Port and Airport Development Levy, Import Cess, Export Cess, Special Commodity Levy, Excise Duty on Petroleum, Excise Duty on Motor Vehicles, Other Excise Duty, Revenue on Local Sales for Apparel in the year under review by Sri Lanka Customs had declined as compared to last year by Rs.91,654,835,591 .</p>	<p>Making arrangements to achieve optimal quantitative growth as the main revenue collector of the Government.</p>	<p>Your observations are accurate and agree with those points.</p>
<p>(b) A revenue of Rs. 3,379,832,212 had been collected under fines and forfeit codes by Sri Lanka Customs in the year 2019 and the revenue for the year under review had reduced by Rs.2,505,775,132 or 42.57 per cent as compared to the previous year.</p>	<p>Arrangements should be made to create a proper growth in revenue collection.</p>	<p>-do-</p>

2.2 Expenditure Management

The following observations are made.

2.2.1 Recurrent Expenditure

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) Initial and Revised Cost Estimates A variation ranging from (71) per cent to 632 per cent was observed during the year under review in</p>		

between 11 recurrent and capital expenditure objects in initial estimates and the revised expenditure estimates and the following observations are made in this regard.

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| <p>(i) Quantitative variations were observed between the initial and revised estimates regarding domestic travel expenses in respect of expenditure object No. 1101 . It was not observed that the reasons given for this were acceptable and arrangements had not been made in prudence in preparing the estimates.</p> | <p>Budget estimates should be prepared prudently.</p> | <p>Although the Sri Lanka Customs has informed that an amount of Rs. 42,000,000 was required for domestic travel expenses (under Expenditure No. 1101) in preparing the Annual Estimates for the year 2019, the Department of National Budget has allocated Rs. 37,500,000 for the year 2019 which was the same amount allocated for the year 2018. Since a part of the payment vouchers pertaining to the year 2018 also had to be reimbursed at the beginning of the year 2019 and the provisions had to be transferred under Financial Regulation 66 due to the insufficient allocation of funds .</p> |
| <p>(ii) A 75 per cent variation was observed in between the initial and revised expenditure estimates in expenditure object No. 1203 for food and beverage and uniform expenditure. Nevertheless, the annual requirement had been Rs. 33 million as per the monthly food and beverage expenditure exists at the time of preparation of the annual budget estimates for the year 2019. The allocation requirement for 2019 had been</p> | <p>Budget estimates should be prepared prudently.</p> | <p>The initial estimate for expenditure object No. 1203 was Rs. 40 million and additional allocations had to be made to meet the requirements occurred during the year.</p> |

reported to the Treasury as Rs. 20 million without paying attention on it.

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| <p>(iii) Even though it had been the emphasised on preparing a performance-based budget by National Budget Circular No. 4/2018 dated 17 July 2018 issued with Guidelines for preparation of Budget Estimates for the year 2019, Sri Lanka Customs had not drawn attention to that.</p> | <p>Preparation of Estimates in accordance with Circulars.</p> | <p>Since the recurrent expenditure of this Department is primarily taken under general administrative expenditure, the estimates have been prepared on the basis of the information received at the time of preparation of expenditure patterns and annual budget estimates of previous years. However, due to not occurring of expenditure requirements as expected, provisions have been saved as mentioned in the audit query.</p> |
| <p>(iv) The provisions had been transferred by F.R.66/69 Virement Procedures during the year 2019 , it was observed that the variance between the initial estimate and the revised estimate ranging from 70 per cent to 632 per cent because of that.</p> | <p>Budget estimates should be prepared prudently.</p> | <p>Agree with the audit observation. The relevant officers have been instructed to prepare estimates as accurately as possible as pointed out by the audit.</p> |

(b) Saving of Provisions

A sum of Rs.2,782,500,000 had been made available for recurrent expenditure for the year under review and out of that, Rs. 190,675,880 or 6.85 per cent had remained without spending. It was observed that the allocations had ranged from 7 per cent to 96 per cent as a percentage of the net allocation for 09 expenditure objects.

(i) Although Rs. 4,000,000 had been made available under expenditure object No. 1102 for the travelling expenses of officers of Sri Lanka Customs, only Rs. 149,100 had been spent during the year. Accordingly, Rs. 3,850,900 or 96 per cent had been saved from the allocated funds and it had been stated in the account that the incurring of foreign travel expenses from the Customs Management and Compensation Fund had caused for this saving.

Budget estimates should be prepared prudently.

The overseas travel expenses of the Customs Officers are being incurred by the Customs Management and Compensation Fund and this amount had been estimated for expected foreign travels for the training needs of officers in services other than Customs Officers. However, since these provisions have been saved because of those officers did not receive the required overseas training. Since the 2020 Annual Estimates have been prepared and submitted by now, it has been noted to act as indicated by the audit in preparing the Annual Estimates 2021 .

(ii) The total annual net allocation for food, drinks and uniforms expenditure object No. 1203 was Rs. 70,000,000 . Out of that allocation, a sum of

Submission of accounts should be done accurately.

Complaints are being received from the officers regarding the quality of food provided by the Sri Lanka Ports Authority in late 2019

Rs. 13,338,684 or 19 per cent was saved at the end of the year under review. Despite the provisions had saved under the relevant expenditure objects, it had failure to make payments and actions had not been taken to mention these values in the statement of commitments and liabilities of the above period (Notes III).

and the payments had to be made after carrying out discussions with the Sri Lanka Ports Authority. However, since the inability to reach a definite determination in this regard, it was impossible to make payments for the relevant months. It is further informed that due to a mistake, it has been impossible to mention regarding these expenses in the statement of commitments and liabilities (Notes iii).

(iii) A provision of Rs.94,000,000 had been made available during the year under review for the expenditure object No. 1303 Building and Construction Maintenance Expenditure and out this, 70 per cent or Rs. 65,524,584 had been reported as provision savings. However, it had been reported in financial statements that a sum of Rs. 26,353,800 had yet to be settled by the State Engineering Corporation for the current year under that expenditure object. Accordingly, it was stated that failure to meet expenses as expected had led to a saving of funds despite there were liabilities further to be settled.

Submission of accounts should be done accurately.

There is no arrears to be paid to the State Engineering Corporation in the year 2019 as per the existing files maintained Department. This could not be commenced in the year 2019 due to obtaining approval for the construction of the upper floor of the rest room of the Customs Officers at the Katunayake Airport and having to obtain an engineering report again to make structural changes of it.

(iv) Out of the provisions made for maintenance of Asycuda Information System which was the main computer system of the Sri Lanka Customs, for rehabilitation, improvement and training

Budget Estimates should be prepared prudently.

Agree with the audit observation. Even though the provision of Rs. 100 million has been made under the expenditure object 2001 to improve the computer

activities, Rs.1,327,575 under expenditure object No. 1302, the total provision of Rs. 100,000,000 under expenditure object No. 2001, Rs.24,814,248 under expenditure object No. 2002, the total provision of Rs. 7,000,000 under expenditure object No. 2103, the total provision Rs. 10,000,000 under expenditure object No. 2401 had been saved in the year under review. That amount had been 44 per cent, 100 per cent, 83 per cent, 100 per cent and 100 per cent, respectively as a percentage out of the net provision made. It had been stated that failure to meet expenses as expected and to incur expenses from the Customs Management and Compensation Fund had caused these savings.

- (v) A sum of Rs.140,000,000 had been made available for expenditure object No. 1403 (Electricity and Water) and out of this 11 per cent or Rs.15,990,572 had been reported as provision savings. Even though it had been stated that these savings because of not incurring expenses as expected, it was observed that a sum of Rs. 9,200,883 had to be settled furthermore for the year under review under that expenditure object. Accordingly, despite there was a liability of approximately 57 per cent of the amount remaining for further settlement under the expenditure object, mentioning of not incurring expenditure as expected had led to savings was not a matter that could be accepted at the audit.

network system of the Sri Lanka Customs, due to the busy schedule of officers with technical knowledge for the Technical Evaluation Committee there was a delay in preparing the relevant specifications and bidding documents. As a result of inability to complete the procurement process, it is kindly informed that these provisions have remained.

Budget estimates should be prepared prudently.

Agree with the audit observation. It is informed that the reason for the provision savings under expenditure object No. 1403 (Electricity and Water) should be amended as the bills for payment were not furnished as at 31.12.2019.

(vi) Annual Allocation for expenditure object No. 1409 (Services - Other) was Rs. 488,000,000 . A sum of Rs.400,000,000 or 82 per cent of its allocation had been made available for payment for scanning and searching of containers. A sum of Rs.345,350,000 out that amount made available had been transferred to 8 other expenditure objects at 11 instances under Financial Regulation 66/69 Virement Procedure. After transferring of funds, savings of 26 per cent had been reported furthermore. Since failure to implement the project of scanning 100 per cent of import and export containers during the year under review as in the previous year, it was observed that the transferring of funds as well as provision savings had occurred in this way . Bidding for this Project had taken place in November 2015 and the inaugural ceremony of the programme had also been held on 21 October 2019. However, the necessary active arrangements had not yet been made to implement this Project promptly.

Preparation of budget estimates as prudently, and completion of container scanning project promptly.

This project is currently in the testing phase and the Rapiscan Systems (Pvt.) Ltd, is carrying out discussions with the Ministry of Finance and Sri Lanka Customs to further reduce the number of containers per day to be paid. These discussions are in the final stages, (as it is difficult to scan 1,100 containers a day due to certain practical issues). Negotiations are being carried out to find a solution to extend the contract period by reducing the minimum number of containers required for scanning per day and to avoid occurring loss to the company from that.

(c) Capital Expenditure

Out of Rs.358,450,000 allocated for the capital expenditure for the year under review, 74.45 per cent or Rs. 266,866,994 remained without spending and it had ranged from 10 per cent to 100 per cent as a percentage of the net allocation for nine expenditure objects.

Budget estimates should be prepared prudently.

Agree with the audit observation. It is noted to follow the instructions given by the audit.

Similarly, capital expenditure object No. 2104 (Building and Construction) and 2401 (Staff Training) had reported 99.95 per cent and 67.22 per cent as savings respectively during the year under review and it had been stated incurring costs from the Customs Management and Compensation Fund had caused for these savings. Accordingly, the need to prepare an Annual Estimate was observed during the audit the possibility of funding from other funds after examining.

2.3 Commitments and Liabilities Entered Into

 The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) (i) Failure to properly disclose liabilities</p> <p>-----</p> <p>The value of liabilities entered into totalled to Rs.20,908,371 received during the year under review pertaining to 10 expenditure objects had not been included in the Treasury print outs.</p>	<p>Accurate account reporting should be carried out.</p>	<p>The Summary of December 2019 Supplementary Accounts should have been submitted before 21.01.2020 in terms of State Accounts Circular No. 269/2019 and the details of liabilities identified by that date were reported to the Treasury through the CIGAS computer</p>

programme. Although that information is included in the Format SAG 2 and the information identified after sending the monthly accounts summary to the Treasury is also included in the Notes iii of the financial statements.

(ii) Information on liabilities related to 06 expenditure objects had been stated in the statement of commitments and liabilities (Note III) submitted with the financial statements and the Treasury printout (SA 92). Nevertheless, it was observed that the out of those 06 expenditure objects, the liability value of 02 expenditure objects understating by Rs. 9,807,794 less than the value stated in the Treasury print out and the liability value of 04 expenditure objects overstating by Rs. 33,120,648 more than the value stated in the Treasury print out had been reported.

Actions should be taken to furnish accounts accurately.

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(iii) Even though the value of liabilities pertaining to 02 expenditure objects totalled to Rs.4,328,020 had been stated in the Treasury printout (SA 92), those values had not been included in the statements of commitments and liabilities (Note III) submitted with the financial statements.

Actions should be taken in accordance with the instructions of the Treasury Circulars.

It was impossible to enter these values under Note iii by mistake.

(b) Entering into Liabilities Exceeding Provisions

It had been entered into liabilities amounting to Rs. 6,544,528 exceeding provisions pertaining to 02 expenditure objects by Sri Lanka Custom in the year 2019 in contrary to the regulations of the Financial Regulations No. 94 (1) of the Democratic Socialist Republic of Sri Lanka and other State Accounts Circulars issued.

Not to enter into liabilities exceeding the provisions.

Agree with the audit observation.

3. Operating Review

3.1 Annual Performance Report

Even though the Performance Report was required to be tabled in Parliament within 150 days of the end of the financial year , the Performance Report of the Sri Lanka Customs for the year under review had not been tabled in Parliament even by 08 October 2020 in terms of the Public Finance Circular No. 402 dated 12 September 2002 .

3.2 Procurement

The following observations are made.

Audit Observation

Recommendation

Comments of the Accounting Officer

A sum of Rs. 3,512,574 had been paid to a private company for the services obtained during the year 2019 for the maintenance of Cummins type generators installed in the Sri Lanka Customs Headquarters Building.

- (a) Even though it had been stated that the institution that obtained the above services was the sole agent in Sri Lanka for the Cummins type was selected, the authority given to act as Sri Lanka's agent to the above Company for Cummins had expired from 16 January 2018. Nevertheless, without considering that, bidding in violation of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka, actions had not been taken to select the most suitable institution by giving competitive institutions; the opportunity to compete.
- It should make sure to choose the most advantageous suppliers by carrying out procurement activities in terms of the Circular.
- The authorization given to Trade Promoters (pvt.) Ltd. to act as an agent for Cummins products had expired on 16.01.2018. It is stated in the letter dated 25.09.2019 issued by the relevant institution to Trade Promoters (Pvt) Ltd. had the ability to act as an agent for Cummins products from the date of expiration of the authorization or one year after the expiration date until the date of first coming. Services were provided by the institution through a direct contract system without a competitive bid in dealing with these generators as well.
- (b) It had been reported that the Electricity Board had informed the Director of Supplies and Services of the Sri Lanka Customs that the premises manager of the Sri Lanka Customs had inquired from the Ceylon Electricity Board about obtaining the above service, spare parts for the relevant generator are common in the market and the Kolonnawa Generators Division of the Electricity Board can provide these services at a discounted price. Nevertheless, The
- Actions should be taken to protect the rights of the Government.
- When re-installing a generator, only a generator with the capacity exists is installed. Since this service has been obtained under direct purchase, a specification review has not been carried out .

Management of the Sri Lanka Customs had not concerned regarding this and this letter had not even been submitted to the relevant Procurement Committee and Technical Evaluation Committee.

(c) Even though a letter had been included in the file stating that the Director of Services Supply had instructed the Ceylon Electricity Board to check the generators and submit the bids, no evidence whatsoever was found in audit whether the letter was sent to the Ceylon Electricity Board by post / registered post / fax / manually. Therefore, the audit could not obtain a reasonable confirmation whether the Ceylon Electricity Board had been inquired with regard to this matter.

(d) The Maintenance Engineer of the Sri Lanka Engineering Corporation had informed the Director of Supply Services about a minor water leak in the radiator and accordingly, the prices obtained from Trade Promoters agency to purchase a new radiator had also been submitted. Accordingly,

- Failure to take remedial

Government functions should be carried out in a more transparent and in a confirming manner.

Government functions should be carried out in a more transparent and in a confirming manner.

Even though the Ceylon Electricity Board had visited the Customs Headquarters and inspected the generators upon notification to that institution, the bids had not been submitted. Although the inquiries were made on several occasions, the prices were not offered.

The radiator of the generator was repaired twice before that water leak was observed. Since it is essential to continue the works of the Department as soon as the faults in the machines are detected, the relevant institution will be contacted by telephone and the relevant activities will be done in collaboration with a representative of that institution. The procurement was carried out considering the need for a

actions to prevent this minor leak during daily inspection.

- Lack of proper attention on exploring the ability to make repairs .
- Submission of quotation on Trade Promoters agency to purchase a new radiator with a notice of a minor water leak in the radiator.
- Non-submission of evidence through the file whether the Trade Promoters agency had visited and inspected the radiator No. 01 or informed the agency about this or asked for a price.
- There were questionable facts during the audit such as carrying out the procurement for the re-installation of a radiator from the above institution by paying a sum of Rs. 2,190,741 and proposing to enter into a service agreement again with the above institution after 03 months by paying Rs. 1,321,833 .

(e) Although the Procurement Committee and the Technical Evaluation Committee are responsible for the entire procurement process in terms of Procurement Guidelines 2: 4: 1 of the Democratic

Execution of the responsibilities of the Tender Evaluation Board accurately.

service agreement to minimize future problems.

Since it was impossible to be dealt with the irresponsible agencies considering the role of the generators in the event of a sudden breakdown of the electrical system, that task has been accomplished by the same agency .

Socialist Republic of Sri Lanka, this procurement process had not been carried out in such a manner in the aforesaid work.

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| <p>(f) Arrangements had not been made to appoint a Technical Evaluation Committee in this regard in terms of Procurement Guidelines 2: 8: 4 .</p> | <p>It should perform the role to be functioned by the Technical Evaluation Committee.</p> | <p>Only the approval of the Departmental Procurement Committee has been obtained for the procurement decision when obtaining this service from an agency without calling bids.</p> |
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3.3 Improper Transactions

 The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) Although it is necessary to obtain the consent of the Minister of Finance and formulate a suitable methodology for the distribution of cash from the Reward Fund in terms of Section 153 (2) (b) of the Customs Ordinance No. 17 of 1968, there was no evidence that the consent of the Minister of Finance had been obtained for Departmental Order No. PL 118 dated 28 January 1988 issued by the Department for the distribution of Customs reward money. Accordingly, a sum of Rs.17,745,558,715 had been paid as reward</p>	<p>The methodology approved by the Minister should be submit to the audit. If there is no such approved procedure, actions should be taken against the officers who did so in accordance with the Establishments Code.</p>	<p>It had been prescribed that the mechanism for payment of rewards in Section 153 of the Customs Ordinance promulgated in 1956. The system of benefits received under the provisions of the Customs Ordinance had been in operation for a long time in the history of Customs. Departmental Order (DOPL) 118 has been declared as a valid, active and enforceable document by the Court of Appeal in its judgment in the case of Gunathilaka Vs. Weerasena .</p>

money during 21 years from the year 1999 to 2019.

(b) A Toyota Land Cruiser Prado (TRJ 150) with a fake chassis number imported without disclosing it to the Sri Lanka Customs was forfeited by a customs investigation and had been given to the Ministry of Economic Affairs at an estimated value of Rs.13,500,000 subsequently, providing a New Customs' Declaration CusDec and a new Chassis Number in contrary to Sections 02 (g) and (d) of the Motor Traffic Ordinance No. 08 of 2009 .

Actions should be taken in terms of the ACT / 02 / CC and the letter dated 07 November 2006 addressed to the Director of Customs by the Commissioner of Motor Traffic.

It was observed that no information was provided regarding such a written law. Accordingly, you have observed that the Department of Motor Traffic has also registered the aforesaid vehicle without any legal provisions. The Department of Motor Traffic should be contacted regarding the registration of the vehicle. We are not aware of the legal provisions for the vehicles forfeited by the Sri Lanka Customs to be re-registered by the Department of Motor Vehicles with a new vehicle number and chassis number and actions have been taken in accordance with the recommendation of the Cabinet.

3.4 Transactions in Fraudulent Nature

The details of the transactions in fraudulent nature observed during the audit test checks are shown below.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) A sum of Rs. 95,000 had been kept in a steel cupboard used by the officers in Sri Lanka Customs in a place that is not easily accessible to an	It is difficult to accept the facts presented to audit later because of failure to disclose the facts during the audit examination. Arrangements should be made to Conduct	The money in the steel cupboard was collected from the officers in Sri Lanka Customs for a farewell party for a senior staff officer who is due to be retired this month, and for donations to a person who

outside party and is not visible at the Arrivals Terminal at the Bandaranaike International Airport, Katunayake. The officials on duty at the time did not disclose the purpose for which the money was withheld and since the blank envelopes in the safe contained the names of the persons who were not the officers, it was questioned during the audit, whether the relevant letters contained the money given by the aforesaid persons.

- (b) Two officers had been assigned to work on a temporary basis under the 24-hour Roster for the Shroff Section of Sri Lanka Customs at the Arrivals Terminal at Bandaranaike International Airport, Katunayake.

(i) It was the main duty of the officers who took over the relevant shift to bank all the money and cheques collected during the 24 hour shift at the end of the shift. Nevertheless, Actions had not been taken to bank the amount of Rs. 40,000 collected as penalty by the receipt

an investigation and act in accordance with Part II of the Establishments Code.

To take necessary steps to regulate the monitoring of the responsibility of the relevant officers with regard to receipts, banking and reporting of revenue and in respect of non-compliance with laws, rules and the circulars.

worked with the Customs for some time and died of a sudden heart attack. The US \$ 1 has been in the small safe for a long time.

Agree with the audit observations.

dated 25 November 2019 and numbered Q / 24 787224 by the Officers on duty that day.

(ii) A sum of Rs. 295,607 which had been collected as taxes and penalty money had remained with relevant officers were in custody during the cash verification conducted on 26 November 2019 at 11.17 am in the Shroff Division. At that time 15 receipts from Receipt Nos. N 878572 to N 878586 had been issued and its total value was Rs.489,287 . The information had also been recorded in the daily cash book. Accordingly, a sum of Rs. 193,680 less than the amount due on receipts issued had remained at Shroffs at the time of the audit.

To take necessary steps to regulate the monitoring of the responsibility of the relevant officers with regard to receipts, banking and reporting of revenue and in respect of non-compliance with laws, rules and the circulars.

Agree with the audit observations.

3.5 Losses and Damages

The audit observations in this regard are shown below.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>Two institutions which had imported the same type of printers during the period from 2012 to 2018 had been cleared under customs code numbers (8443.32.40 and 8443.32.90) different from each other. Therein, one institution had declared the correct value of the goods and paid taxes such as VAT, PAL, NBT and the arrangements had been made to pay less than 50 per cent of the tax to be paid from prescribed tax since the other institution had understated of the value of the goods. The following observations were made in this regard.</p>	<p>Carrying out an investigation whether the clearing of the printing machines was done accurately.</p>	<p>If the printers have the facilities such as FAX, Scan (Multi-Function) then the Custom Harmonized System Code No. 8443.32.90 is being used. If only printing works are being done , 8443.32.40 is used.</p>
<p>(a) One institution had not paid any VAT on the importation of 26 (Hitachi- Rx2-SD160W) and the other institution had imported 08 printing machines and paid Rs.721,896 as VAT.</p>		

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|--|-------------|-------------|
| <p>(b) The Company which had not paid VAT had declared a printing machine (Hitachi-Rx2– SD160W) worth of Rs.200,000 and the other Company had declared a value of Rs.400,000 .</p> | <p>-do-</p> | <p>-do-</p> |
| <p>(c) A number of 83 Accer printers were imported and the VAT on it amounting to Rs.88,812 had been paid for 14 of them under Customs Harmonized System Code No. (HS) 8443.32.90 and the remaining 69 machines had been cleared under Customs Harmonized System Code No. 8443.32.40 without paying VAT.</p> | <p>-do-</p> | <p>-do-</p> |

3.6 Uneconomic Transactions

The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) Actions had not been taken to release 752 guarantees or nearly 14 per cent again out of 5502 cases where goods had been released on bank guarantees due</p>	<p>Arrangements should be made to take steps on matured bank guarantees.</p>	<p>The number of banks guarantees remained as at 07.09.2019 is 510. The prolonged retention of these bank guarantees was not the</p>

to non-payment of due taxes by importers for various reasons during the period from 2008 to 2018 .

fault or negligence of the customs officers and it is observed that this has been occurred in accordance with a decision taken by the Department of Fiscal Policy and the Department of Trade and Investment Policy of the Ministry of Finance and Planning.

(b) An income amounted Rs. 33,845,962,239 had been collected by 35 Divisions of Sri Lanka Customs during the period from 2015 to June 2019 through investigations carried out on customs offenses registered under the Central Case Registration System (ECCR) of the Sri Lanka Customs. Out of that, 69 per cent was collected as penalty income and sales revenue. Only 30 per cent is credited to the Consolidated Fund because of 70 per cent of penalty income and sales revenue goes to the Customs Officers' Reward Fund and Management Compensation Fund. Accordingly, out of the total income of Rs.33,845,962,239 obtained through investigations, a sum of Rs.16,341,023,479 had been divided among Officers and informants of Sri Lanka Customs. It was not observed that the laws enacted in the past regarding the distribution of rewards to Officers in Sri Lanka Customs and the provisions of funds to the officers' welfare funds have been amended from

To act to be ensured the security of Government Revenue and reviewing the existing system again.

Answers have not been given.

time to time. It was observed that there was a tendency for a large amount of money to be owed to the Treasury had to be distributed among a limited number of government officials due to the large amount of prize money being paid under the Rewards Scheme which is currently in operation for certain functions performed by the officers in their normal official duties.

3.7 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) Eleven private institutions had been established to facilitate the transportation of goods using the Unaccompanied Passenger Baggage (UPB) and Gift schemes introduced by the Government for Sri Lankans working in foreign countries to bring goods for their personal use. Nevertheless, Sri Lanka Customs did not have any system in place to check the accuracy of information on classification, weight, quantity and value of goods sent to Sri Lanka under the GIFT system. Therefore, it was observed that, there have been a number of risks for a long time such as the possibility of building a mismatch between the passengers and the customs officials carrying the goods, the inability to declare accurate information through that and the</p>	<p>Reviewing the procedure of UPB / Gift Schemes and securing government revenue.</p>	<p>As per the customs clearance procedure for UPB or parcel clearance, they are inspected by a Deputy Director of Customs, Superintendents of Customs, Assistant Collecting Officers and Customs Inspectors and it is observed that there is no opportunity of occurring any difficulty there. Relevant measures have been taken to protect the contents of the repository from rats and insects. However, due to uncontrollable reasons and the nature</p>

inability to secure government tax revenue on that . Likewise, it was ascertained that there are a number of risks of illegal imports, etc. and that there was a risk of goods being restricted by the government entering the country and that the existing safe in warehouses, proper documentation and storage procedures were not followed.

(b) Upon release of goods imported into Sri Lanka by Sri Lanka Customs in cases where it is done outside the normal tax payment system for various reasons, the necessary facilities are provided by the “D” Branch of the Sri Lanka Customs. Fifteen officers belonging to 06 posts ranging from Director of Customs to Public Management Assistant had been attached to the “D” Branch for the year 2019 and written assignments had not been made to the relevant posts of each of these officers.

(c) Even though security cameras have been installed at some of the attached warehouses maintained by Laksiri Seva and Trico Service Centres, The most essential place where goods and luggage are examined by the officers of the Sri Lanka Customs had not been covered by the relevant security cameras.

Assignments should be assigned formally to the relevant parties.

Continuously checking of security cameras and upgrade the camera systems to cover essential locations.

of certain goods, the deterioration of the goods can occur. It is kindly informed that documents are being prepared and necessary activities are being done to identify the items in the repository.

The new assignment documents on duties are being prepared with the approval of the Director of Customs and Deputy Directors of Customs changing the duty structures of the "D" Branch .

Cameras have been installed at the required locations in the premises of the institution and it is observed that there is no need to install cameras at the place where the goods are inspected and supervision of relevant goods inspection activities are being carried out by a Deputy Director of Customs and Superintendents of Customs. It is also observed that the

inspection of such goods should be done in a manner that protects the privacy of the relevant passengers.

(d) When the Sri Lanka Ports Authority takes action to sell imported goods which are not removed by the importers from the port premises, through tenders, the value of the goods is determined by the Sri Lanka Customs. There was a large variance between the values so determined and the value of the bids sold or offered. It was observed that the deprive of tax revenue to the government due to undervaluation of the value of goods and there were shortcomings such as reduction in market value, destruction of goods, having to incur extra cost and effort to submit for repeated tenders due to the overvaluation of the goods remained unsold as well. Similarly, information on how the value of goods sold through tenders was determined and information on the Customs Harmonized System Code (HS CODE) used had not been included in the files. Therefore, failure to verify the accuracy of the determined value and the tax levied and Sri Lanka Customs had not conducted a sequential inspection whether the unsold items in one tender is submitted for the next tender and if not, what were the reasons for that.

Actions should be taken to review the process of sale of abandoned goods at the port continuously and efficiently.

Sri Lanka Customs uses various criteria for the valuation of tender price of abandoned goods. The market value of the goods, the CIF value of the goods when they are unloaded in Sri Lanka, the customs duty applicable to the goods, the country of manufacture of the goods, the quality of the goods, the time of manufacture of the goods are the key factors out of that and the value of relevant goods to be sold in the tender is determined taking all these into consideration.

(e) It was observed in audit that the government loses a lot of tax money due to the Central Disposal Division (CDU) of Sri Lanka Customs not providing an accurate valuation for the

Review of the goods auction process conduct by the Central Disposal Division (CDU).

It is appeared that the large variance between the Sri Lanka Customs assessed price and the selling price of the

goods sold at auction. Accordingly, even though the valuation given by the Sri Lanka Customs for 07 vehicles sold through 03 tenders was Rs. 19,427,888 as per the audit test check carried out by the Sri Lanka Customs Central Disposal Division (CDU) on vehicles that were called for tenders and sold during the year 2019 because of importers do not remove it from the port premises, the auction sale value had been Rs. 32,172,000. Accordingly, although the tax revenue received by the government was Rs. 3,174,824 because of the actions were taken to levy taxes only on the assessed value, the tax revenue deprived due to variance was Rs. 2,170,965 since the amount of tax to be levied on sales value was Rs. 5,345,789.

goods but not because of a weakness in the pricing mechanism of the Sri Lanka Customs, but simply due to the personal decisions of the bidders.

(f) (i) Checking of Securities

A number of 60 bank guarantees valued at Rs.112,841,773 had been obtained by the Container Examination Division by 10 July 2019 and out of these, 31 were the guarantees which were not got released by the importers for a period of 156 days to 823 days amounting to Rs.78,003,551 . As a result of goods related classification issues, the goods had been released on bank guarantees in all other cases except for 2 of the above 31 cases. As a result of the NC (Nomenclature Classification) Committee and Clarification Unit had failure to function promptly , it had been observed that the government would incur a huge loss as compared to the depreciation of

To review the reasons for the goods released on guarantee and taking steps to prevent delays in decision making by the Customs Goods Classification Unit (CCU) and the NC Committee.

Bank guarantees have to be extended until the NC Committee and the Classification Division issue a final decision on the problems in classification of goods. The following matters were confirmed in comparing of the documents maintained and bank guarantee management system .

the currency over time because of retention of bank guarantees for long and the delay in collecting taxes receivable to the Government. The documents maintained by the Container Examination Division regarding the corporate guarantees and personal guarantees had not been properly updated and maintained and there were long term unresolved guarantees and an adequate supervision had not been carried out in Sri Lanka Customs in this regard.

It was also observed that there were differences in the information contained in the Asycuda World Bank Guarantee Management System regarding the bank guarantees pertaining to the Container Examination Division and the guarantee values, guarantee amount, reference numbers etc. included in the documents maintained by the Division regarding the bank guarantees. Due to the fact that the failure to formulate a system in place to automatically inform about maturity guarantees although it had to be constantly monitored, it had not so occurred.

(i) The number of unsettled bank guarantees as per documents was 40 and its value was Rs.125,098,810.60 by 06.01.2020 .

(ii) Twenty-eight settled bank guarantees have not been released and updated in the Bank Guarantee Management System and its value is Rs.90,923,707. Steps have been taken to release those bank guarantees from the

Management System.

- The value of the bank guarantee applicable to the guarantee file number RCT / BG / 56/2018 is Rs. 3,000,000. It has been accurately noted in the relevant documents. It has been entered in the bank guarantee system as Rs.13,247,629 incorrectly. That value is the statistical value (cage No. 46) of Customs Record No. I 164268. Steps were taken to rectify it in the relevant guarantee information system.

(ii) Even though 60 bank guarantees valued at Rs.112,841,773 had not been settled as per the documents maintained by the Rank Container Terminal (RCT) at the Head Office, it has been mentioned that the 93 bank guarantees amounting to Rs.201,693,693 was unsettled as per the Bank Guarantee Management System.

Conducting the inspections for differences and verify accurate values.

- The value of the bank guarantee applicable to the guarantee file number RCT / BG / 62/2018 is Rs.289,872. It has been accurately noted in the relevant documents. It has been entered in the Bank Guarantee System as Rs.1,319,241 inaccurately. That value is the statistical value (cage No. 46) of Declaration Cusdec I 189489. However, the bank guarantee has been released on 18.09.2019 .

(iii) The value of Rs.3,289,872 had been stated in the bank guarantee system as Rs.14,566,898 as per the bank guarantee documents.

-do-

-do-

(g) Performance Related to Customs Investigations

(i) A number of 32572 Customs Inquiries had been registered during the period from the year 2015 to 30 June 2019 and investigation activities had not been commenced in respect of 15,531, or 48 per cent out of these, until the date of audit. Nearly 50 per cent or 7241 investigations were commenced in 2015 .

Reviewing the delays in commencing customs investigations and to securing government revenue by completing investigations.

Actions will be taken to take necessary steps to reduce the discrepancy between the information in the physical documents and the information in the Customs Central Case Register System by making aware of relevant Divisions in this regard.

(ii) In stating what was the customs offense relevant to commencing of a customs investigation during the above period, the highest number of 8047 times had been stated as "NULL". That is, the customs investigations had been commenced without identifying exactly what the customs offense was.

Reviewing the delays in commencing customs investigations and to securing government revenue by completing investigations.

It is difficult to measure the time taken to commence and complete a reference file based on eCCR data. In obtaining a report on all the files registered in the eCCR within the eCCR account access limit given to the Divisions of the Sri Lanka Customs , the Custom Offense Category related to the registration is not included to that report. Eighteen institutions were found guilty of customs offenses more than 50 times in importing goods by an institution itself and the

(iii) The same institutions had repeatedly been convicted of customs offenses and there were 18 institutions which had become such offenders for more than 50 times during the period. A proper

Approach to a methodology that discourages committing customs offenses.

system had not been developed by Sri Lanka Customs to identify institutions / individuals which are continuing to commit customs offenses.

total number of customs offenses committed was 3483. It is observed that 2212 investigations were carried out under the Revenue Task Force out of the divisions that had commenced investigations into customs offenses.

(h) Although facilities were provided for the importation and exportation of goods on a temporary basis for re-export or re-import without levying prescribed taxes by the Carnet Scheme and also the audit has pointed out that there were a number of shortcomings in this regard as follows, proper actions had not been taken for that.

A formal follow-up system should be developed.

Carrying out follow-up actions in this regard cannot be done by the Air Cargo Division only. It is kindly informed you that the attention has been drawn to formulate a methodology in this regard since it applies to a wider range than the Air Cargo Division.

(i) Failure to re-reconcile the records and documents kept separately in the Import and Export Divisions.

(ii) Failure take actions to follow up and confirm that re-exports or re-imports had taken place within the prescribed time period.

(iii) Failure to take further action against institutions / individuals who have not re-exported and re-imported within the prescribed time period.

(iv) Failure to levy stipulated taxes in respect of goods imported under the Carnet System and disposed in Sri Lanka or goods used in Sri Lanka.

(i) There were several defects in the internal control in arrival and departures of 22 officers in staff attached to the Laksiri Seva Warehouse

Formalization of internal controls. As these shortcomings exist in all Divisions of the Sri

Actions have been taken to observe the deficiencies pointed out by the auditor in the

<p>(UPB Warehouse) as 16 permanent and 06 Roster.</p>	<p>Lanka Customs, taking a common course of action to rectify them.</p>	<p>arrival and departure documents and to rectify them and necessary instructions have been given to prevent such deficiencies in future. It is currently being maintained as indicated in audit.</p>
<p>(j) Adequate steps had not been taken to correct internal control weaknesses remained with regard to the arrivals and departures of Customs staff working at the Arrivals Terminal at Katunayake Bandaranaike International Airport.</p>	<p>Formalization of internal controls. As these shortcomings exist in all Divisions of the Sri Lanka Customs, taking a common course of action to rectify them.</p>	<p>Necessary instructions have been given to maintain the Register of Arrival and Departure maintained by the Passenger Services Division (Katunayake) and it is being monitored by the Director of Customs (Passenger Services) and the Deputy Director of Customs. It is kindly informed that the relevant officers have been made aware to mention the arrivals and departures properly.</p>
<p>(k) For Customs Officers who had attached to the Permanent Customs Staff at Arrivals Terminal in Katunayake Bandaranaike International Airport,</p>	<p>Formalization of internal controls. As these shortcomings exist in all Divisions of the Sri Lanka Customs, taking a common course of action to rectify them.</p>	<p>It is kindly informed you that necessary steps have been taken to prepare all the Short Leave Registers.</p>
<p>(i) A Leave Register or a Short Leave Register had not been maintained.</p>	<p>Formalization of internal controls. As these shortcomings exist in all Divisions of the Sri Lanka Customs, taking a common course of action to rectify them.</p>	<p>It is kindly informed you that necessary steps have been taken to prepare all the Short Leave Registers.</p>
<p>(ii) The Register of Movement and the Register of Overtime had been maintained with shortcomings.</p>	<p>Formalization of internal controls. As these shortcomings exist in all Divisions of the Sri Lanka Customs, taking a common course of action to rectify them.</p>	<p>It is kindly informed you that necessary steps have been taken to prepare all the Short Leave Registers.</p>

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| <p>(l) Constantly bringing goods in commercial form in an organized manner using the Arrivals Terminal at Katunayake International Airport had been taking place over a long period of time and the customs valuation of the commercial goods so brought was Rs.605,796,308 during the period from 01 January 2019 to 30 November 2019 . It was observed that no measure whatsoever had been taken to follow the below mentioned internal control procedures as indicated by the audit with regard to inspection of the aforesaid goods, levying of taxes.</p> | | |
| <p>(i) Taking actions in accordance with the legal provisions mentioned in the Internal Circulars (DOPL) .</p> | <p>It should comply with Departmental Orders and implementing of internal control systems in an updated manner.</p> | <p>It is kindly informed that the necessary instructions have been given again to act in accordance with these provisions.</p> |
| <p>(ii) Updating internal circulars in accordance with periodic requirements and issuing internal circulars to regularize the activities of the Shroff Division.</p> | <p>-do-</p> | <p>-do-</p> |
| <p>(iii) Installation of security cameras (CCTV) adequately and monitoring of those camera footages continuously.</p> | <p>-do-</p> | <p>It is kindly informed you that the officers have been given necessary instructions for this.</p> |
| <p>(iv) Development of Computer System in the manner of including data related on weighing of goods automatically entered into the Customs Computer System (Asycuda) .</p> | <p>-do-</p> | <p>Agree with this and it has been taken into notes to study further and take necessary actions in future.</p> |

(v) Checking of the possibility of obtaining information of passengers from the respective airports on the value and weight of the goods bringing and develop a methodology in this regard.	-do-	Agree with this and it has been taken into notes to study further and take necessary actions in future.
(vi) Making policy decisions required to enforce the laws and rules to identify people who bring commercial type goods using the frequent Arrivals Terminal and preventing money laundering by the parties involved so that to be enable deliberately evade taxes.	-do-	It is functioning in accordance with the rules imposed by Departmental Orders Nos. 700 and 706A and necessary advices have been given again to the officers. Further, disciplinary actions will be taken against the officers who are involving in improper actions.
(vii) Develop a methodology for remittance of information to the Department of Inland Revenue in respect of persons bringing commercial type goods.	-do-	A policy decision in order to that has to be taken and the customs officers are carrying out the relevant activities in accordance with the existing laws and rules.
(viii) Making the necessary policy decisions with the Airline to control goods carried with passengers in commercial nature.	-do-	The taxes and penalties are levied in accordance with the existing rules for goods bringing by a passenger within the scope of Sri Lanka Customs.
(ix) Officers are required to disclose personal money and other valuable things in their possession before commencing duties.	-do-	The answers have not been given.

The attention of the top management of the Department should be drawn on the following risks remained due to serious internal control deficiencies as mentioned above.

- Failure of receiving government tax revenue as prescribed.
- Existing of a risk of entering illegal and restricted imports of goods into the country.
- Failure to disclose the value of foreign exchange remitted to foreign countries for purchasing of these goods.
- The atmosphere to be able to occur unfavourable conditions to the country such as market disadvantage for importers who import goods paying due taxes had created.

4. Achieving of Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
----- All government institutions should act in accordance with the United Nations 2030 “Agenda” for Sustainable Development and the Sri Lanka Customs had not aware of the way to be active under the scope of tasks of the Sri Lanka Customs pertaining to the year under review.	----- The Department should ensure that it complies with Public Policy and the relevant Act.	----- Answer had not been given.