

Head 296 – Department of Import and Export Control

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Import and Export Control 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 including my comments and observations on the financial statements of the Department of Import and Export Control was issued to the Accounting Officer on 30 June 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Detailed Annual Management Audit Report relating to the Department of Import and Export Control in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 27 August 2020. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in terms of Public Finance Circular, No. 271/2019 of 03 December 2019 give a true and fair view of the financial position of the Department of Import and Export Control as at 31 December 2019, and of its financial performance and its 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 (SLAS). 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 for the Financial Statements

The Chief Accounting Officer and 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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- I identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1. 5 Report on other Legal Requirements

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

- (a) Financial statements are consistent with the preceding year.
- (b) The recommendations made by me in the preceding year in connection with the observations shown in Paragraphs 1.6.2 (a) ,(b) and (c) of this report had not been implemented.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

Audit Observation	Recommendation	Comments of the Accounting Officer
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Even though an amount of Rs. 200,000 under Object Code No. 2401 of Format No. ACA-2 (i) accompanied the Statement of Financial Performance for the year ended 31 December 2019 had been reported as a reduction of “Supplementary Estimated Provision”, the reasons for this has not been explained. Further, even though the correct balance on Format ACA-2 (ii) should be Rs. 245,245, the value stated was Rs. 45,245.	Financial statements should be prepared in terms of Public Finance Circular No. 271/2019 dated 03 December 2019.	It has been requested to withhold 10 percent of the allocations made for capital expenditure as per Budget Circular 05/2019. Accordingly, a provision of Rs. 200,000 / - has been withheld from the Object of staff training expenditure.

1.6.2 Failure to Maintain Books and Registers

 It was revealed in sample audit test checks that the Department had not maintained following registers.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) Register of Securities -----</p> <p>A Register of Securities in terms of Financial Regulation 891 (1) had not been prepared including information on officers and employees eligible for producing securities.</p>	<p>A Register of Securities regarding officers eligible for producing securities should be maintained including information in terms of Financial Regulation 891 (1).</p>	<p>It was noted to take action to prepare and maintain a Register of Securities in terms of FR 891 (1) in the future.</p>
<p>(b) Vehicle Log Book -----</p> <p>Vehicle Log Books had not been maintained in terms of Financial Regulation 1645 (a).</p>	<p>Vehicle log books should be maintained in respect of all vehicles in accordance with form General 267 as stated in the provisions of Financial Regulations 1645 (a).</p>	<p>Arrangements have been made to update the log books maintained for each vehicle and noted to maintain more accurate in the future.</p>
<p>(c) Committee Meeting Minutes -----</p> <p>Meeting minutes of the Procurement Committees had not been maintained in terms of guideline 2.11.3 (a) of the Government Procurement Guidelines.</p>	<p>The records should be maintained in terms of guideline 2.11.3 (a) of the Government Procurement Guidelines and in terms of the format referred to in 2.11.3 of Procurement Manual.</p>	<p>Action will be taken to maintain the relevant records in the future in accordance with Form 2.11.3 of the Government Procurement Guidelines.</p>

1.6.3 Assurances to be Made by the Accounting Officer

----- Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department of Import and Export Control in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alternations as required for such systems to be effectively carried out. Even though. such reviews should be made in writing and a copy thereof should be presented to the Auditor General, no explanation was made to the Audit that a review had been made.</p>	<p>Action should be taken to comply with the provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>	<p>Progress is discussed at staff meetings from time to time and the necessary steps are taken to make financial and internal control effective. Internal Circulars No. 2018/01, 2018/02, 2018/03, 2018/04, 2019/01,2019/02, 2019/03,2019/04, 2020/01, 2020/02, 2020/03 and 2020/04 have been issued to strengthen the areas where internal controls identified in those discussions could be weakened.</p>

1.6.4 Non-compliances with Laws, Rules, and Regulations

The instances of non-compliances with provisions of the Laws, rules, and regulations observed during the sample audit are described below.

Reference to Laws, Rules Regulations etc.	Observation Non-compliance	Recommendation	Comments of the Accounting Officer
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(a) Statutory provisions			

(i) National Medicines Regulatory Authority Act No. 05 of 2015	Although if only a sample of drugs is imported, an import license has to be obtained, drugs valued at Rs. 11,753,264 had been imported without obtaining such a license. Further, permission has been granted to import drugs valued at Rs. 964,897 even though the validity of the registration certificate issued for the importation of drugs had expired.	Legal requirements should be looked for and necessary action should be taken against officials who did not comply with.	<p>National Medicines Regulatory Authority Act No. 05 of 2015</p> <p>In case of importing a drug sample, the importing institution should submit the relevant documents and obtain a license. If the license does not specify the quantity of the drug that can be imported in the approval given by the National Medicines Regulatory Authority, the permission is granted to import a sample of 10 percent of the value (CIF value) of the importing drug.</p> <p>Nevertheless, if only drugs samples are imported, the institute should also obtain the</p>

relevant licenses by submitting the relevant documents as mentioned above.

Despite the validity of the registration certificate issued for the importation of drugs has expired, if the Medicines Regulatory Authority has sealed the originals of the relevant registration certificates and the invoice number and quantity are mentioned, the drugs will be debited.

(ii) Section 11 E of the Import and Export Control Act No. 01 of 1969 as amended by Act No. 28 of 1987

Importers who are carrying out imports contrary to the standard had not been notified by a notice published in the Gazette.

Provisions should be made for the notification of importers who are carrying out imports contrary to the standard by a notice published in the Gazette in terms of Section 11 E of the Import and Export Control Act No. 01 of 1969.

As per the instructions of the Controller General of Imports and Exports, Policy Division of the Department has informed that, imported items under the “Import Compulsory List” should conform and comply with standards and specifications of Sri Lanka and for imports which are not so, a blacklist should be prepared and it should be published in a gazette notification. Accordingly, that procedure has already been implemented and a letter has been issued

to the Institute of Standards on 21. 01. 2019 stating that to inform the Department regarding the goods and institutions which do not conform to the standards and specifications from 01.01.2019 to 31.12.2019. A definite response has not been received for that so far and a draft Gazette has been prepared containing the regulations for preparation of blacklist and issuance of gazette notification.

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| (b) Financial Regulation 1646 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | Even though running charts of vehicles should be submitted to the Auditor General before the 15th day of following month after the end of each month, there was a long delay in submitting such running charts. | Legal requirements should be looked into and action should be taken. | Please be informed that it was noted to send running charts to the Auditor General in the future according to the deadlines. |
| (c) Extraordinary Gazette Notification No. 2044/40 dated 09 November 2017 | A license should be obtained from the Department of Import and Export Control in case of importing goods mentioned in the Extraordinary Gazette Notification No. 2044/40 dated 09th November 2017 regarding the orders made by the Minister under Section 26 of the said Act read along with Sub-Section (3) of Section | Action should be taken as soon as it is informed that the importers have functioned in accordance with the procedures of the Department or otherwise. | The Extraordinary Gazette Notification No. 2044/40 dated 09 November 2017 is not applicable with respect to those items imported by Hayleys Free Zone (Pvt) Ltd in the year 2017 and year 2018. Furthermore, the Imports and Exports Act No. 1 of 1969 and Import and Export Control Acts such as |

04 and Section 14 of the Import and Export Control Act No. 01 of 1969. However, any action had not been taken regarding importation of 102 containers containing 2,131,325 kilograms of solid waste with a CIF value of Rs. 19,760,224 in the year 2017 and year 2018 by a company registered in the Board of Investment of Sri Lanka without obtaining such a license.

No. 48 of 1985 and No. 28 of 1987 which contain amendments thereto, are not directly or indirectly applicable to it. Please be informed that the Finance Act No. 12 of 2012 is applicable for Hub Regulation.

(d) Section 4.2.1 of Procurement Guidelines

The master procurement plan had not been prepared according to the format.

The procurement plan should be prepared in a proper manner.

Action will be taken in the future to maintain the relevant records in accordance with the format given in 4.2.1 of the Government Procurement Guidelines.

(e) National Budget Circular No. 5/2019 dated 24 September 2019

Even though 25 percent of the allocation for capital expenditure should have been withheld in terms of National Budget Circular dated 24 September 2019, the provisions had not been withheld in relation to 03 Objects.

Action should be taken in accordance with the National Budget Circular dated 24 September 2019.

Letter No. BD / NS / 103/03/18/11 of 11 July 2019 sent from the Department of Budget to the Ministry of Development Strategies and International Trade with a copy to our Department has informed regarding the institutions that the capital provisions have been withheld as per circular No. 4/2019. According to the letter, allocations for capital expenditure of this Department has

not been withheld. As a result, 15 percent of capital expenditure has not been withheld. According to the Budget Circular 5/2019, only 10 percent of the allocation for capital expenditure has been withheld from the provisions for staff training expenditure.

2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) The preliminary estimate for the five recurrent Objects totaling Rs. 51,900,000 had been revised up to Rs. 54,682,450 in the year under review and it ranged from 10 percent to 59 percent as a percentage.</p>	<p>Estimates should be prepared on a factual basis.</p>	<p>Expenditure on Objects which the provisions were revised had not been identified at the time of preparation of estimates for the following Objects where there were differences between the initial estimate and the revised estimate and due to the changes taken place during the year, the provisions for these Objects had to be revised. The following are the reasons for having to revise the allocations for those Objects.</p>

296-1-1-1001, 296-1-1003: - Estimates have been prepared based on the existing staff at the time of preparation of the budget estimates. Due to the recruitment of new employees and the transfer of officers during the year, the provisions for this Object has to be increased.

296-1-1-1101 - Additional provisions had to be made in this Object due to the involvement of officials in programs organized by the Presidential Secretariat island wide since February 2019. Such programs had not been reported at the time of preparation of the budget estimates for 2019.

96-1-1-1201 - Expenditure restriction as per Budget Circulars 7/2019 and 4/2019.

296-1-1-1404 - Non-receipt of the requested provisions.

- (b) Out of the net provision totalling Rs. 6,600,000 provided for 5 recurrent Objects, only Rs. 4,498,510 had been utilized. Accordingly, the savings were Rs. 2,101,490 and the savings ranged from 12 percent to 37 percent out of the net provision.
- Estimates should be prepared on a factual basis.
- Object 296-1-1-1408 mentioned in your audit query should be revised as Object 296-1-1-1409 and agree with the percentage of savings shown in the Objects.

- (c) Although the National Budget Circular No. 4/2018 of 17th July 2018 issued with guidelines for the preparation of the budget estimates for the year 2019 had emphasized on the preparation of a budget based on performance, action had not been taken accordingly.
- Action should be taken complying with the circulars issued by the government .
1. Progress in printing Gazette notifications
 2. Implementing an online computer system
 3. The average training hours per employee etc.
- had been identified as the performance indicators of the Department at the time of preparation of the budget estimates for the year 2019. Budget estimate details have been submitted to the Department of National Budget as to be able to reach those indicators.

2.2 Operating Bank Accounts

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Even though, a cash reserve adequate to settle the daily expenses (appx. Rs. 02 million) should be maintained from the surplus of revenue, and the balance should be remitted to the Treasury, there were instances where this procedure had not been followed.	In terms of Financial Regulation 177 (1), cash adequate to settle the daily expenses should be maintained as a reserve from the revenue collected by the Department and the balance revenue should be remitted to the Treasury as early as possible.	Over 95 percent of the receipts of this Department is represented by Bank Drafts. Bank Drafts take one day to be realized and money is remitted to the Treasury comparing the balance in the cash book with the cash balance of the bank statement of previous day. As a result, an unrealized cash balance of one day remains daily and after the remaining daily balance is deducted, the recommended retention limit of Rs. 02 million indicated by you , has been achieved by a significant percentage from January 2020

(excluding the Corona phase). It is expected to reach the recommended limit by remitting cash daily to the Treasury since June 2020.

3. Operating Review

3.1 Failure to Discharge Functions

The following observations are made in connection with the unfulfilled activities out of the activities planned by the Department to be achieved during the year under review.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Establishing a Network Computer System		
(i) The project had been planned to be completed under two stages according to the Memorandum of Understanding with ICT. Accordingly, out of 60 exporters only 12 had been registered in the first stage.	Objectives should be achieved by intervening actively to get the job done on time as planned.	After the launch of the first stage, our institution frequently informed the customers by letters and meetings to expedite the resolution of any issues encountered by the customers during its use. The customers who get to our company are very busy and business-minded people. Therefore, they hope to get an expedited service. Although after the launch of the first stage they were eager to use the system, their interest was gradually lost as the problems that arose at the beginning were not resolved quickly and they got to the institute and

tasks were accomplished. The main reason for this was that failure of ICTA institute and the institute for systems development to resolve the issues in a timely manner. Although they have been informed regarding this, action has not been taken so far to fulfill the task. Further, inability to include the data that needs to be updated in to the first stage is also a problem. Similarly, due to the delay in the development of the second stage by the relevant institutions, the opportunity to provide a expedite fully-fledged e-service to the customers was missed.

- (ii) Recommendations had been obtained directly attending to the relevant institutions without obtaining recommendations through the e-service. Objectives should be achieved by intervening actively to get the job done on time as planned. Recommendations to be obtained for the institutions that applied through the e-service had not been possessed by the 03 registered institutions. Similarly , it was not possible to make direct contact with the agencies which give recommendations as the errors in the first stage had not been resolved.
- (iii) A methodology to encourage importers and exporters to the e-service had not been established in the Department. Objectives should be achieved by intervening actively to get the job done on time as planned. Although importers were gathered and encouraged after the launch of the e-service, ICTA institute and the relevant system development agency failed to resolve the issues identified thereafter

expeditiously. Also, it was observed that some institutions were reluctant to submit applications only, as they had to come to make payments and to debit licenses. (The reply in number i is also applicable for this.)

- (iv) Even though the e-service was provided, the benefit had been minimized due to non-compliance by importers and exporters with this. Applying strategies to attract importers and exporters. Although importers were gathered and encouraged after the launch of the e-service, ICTA institute and the relevant system development agency failed to resolve the issues identified thereafter expeditiously. Also, it was observed that some institutions were reluctant to submit applications only as they had to come for payments and to debit licenses. (The reply in number i is also applicable for this.)
- (v) A suitable service provider for the second stage had not been selected even as at December 2019. Functions should be performed as planned. All the functions such as selection of a supplier for the system, preparation of cost estimates, consultancy and technical knowledge were performed under the financial provisions of ICTA and our institution was not involved in that.
- (vi) Although an expenditure of Rs. 07 million had been estimated for the stage II of the planning stage, it had been later increased to Rs. 45 million. Estimates should be prepared in a formal way and on a factual basis. All the functions such as selection of a supplier for the system, preparation of cost estimates, consultancy and technical knowledge were performed under the

financial provisions of ICTA and our institution was not involved in that.

- (b) Lack of a mechanism to follow up on licenses issued by the Department of Imports and Exports relating to the importation of old vehicles. The process of issuing licenses should be in accordance with the Gazette notifications. Releasing the vehicles by the Customs Department after submitting the Debit Note issued by this Department is the general procedure. Inquiry or notification has not been made by the Customs Department in connection with the release of vehicles without such debit notes. Further, since the validity period of an import or export control license automatically revoked within a specified period of time, a follow up on the matter that whether the relevant import for a license has taken place is not done. However, arrangements have been made from 01 January 2020 to include in all licenses a condition that the license must be debited at the time of importation of the items mentioned in the license. (It is compulsory to debit this license at every instance of importation of goods.)
- (c) Compared to the import licenses and the debit notices issued in the year 2019, debit notices had been issued fewer than the licenses issued for certain categories. Follow-up had not been made in this regard. Imports made using licenses should be duly followed up after the license were issued. Instances where all licenses issued are not debited have been observed. This is due to the fact that the contractual obligations between the suppliers and the importers in the import process are subject to

various deviations which may lead to the cancellation of the imports. The importers do not provide any confirmation to this Department that the goods have not been imported for those licenses. Further, since the validity period of an import-export license is usually automatically revoked within a specified time frame, there is no follow-up on the matter that whether the relevant import for a license has taken place.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>According to a discussion held in the Committee on Public Accounts on 10 February 2006, after the issuance of licenses, a separate unit should have been set up for follow-up purposes. However, it has not been implemented.</p>	<p>Establishment of the Investigation Unit as per the orders of the Committee on Public Accounts.</p>	<p>An internal discussion on the establishment of an Investigation Unit has been held with the participation of the staff officers of the Department and an awareness program on how the Investigation Unit operates within the Consumer Affairs Authority has been also conducted by a resource person of the same authority.</p> <p>The procedure regarding the methodology of the investigation is currently being prepared studying the Acts of the Consumer Affairs Authority and the Department of Import and</p>

Export Control and it has been decided to set up a unit under the supervision of the Controller of Imports and Exports (Control and Policy) and to start the unit with several officers.

4. Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
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There were 19 vacancies as the approved cadre for the year under review was 104 whilst the actual cadre was 85. The Department had spent Rs. 43.7 million for the wage category during the year under review. Accordingly, the per capita expenditure had been Rs. 514,098.	The existing essential vacancies should be filled to enhance the efficiency of the Department.	Reply has not been given.