

## **Head 296 – Imports and Exports Control Department**

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### **1. Financial Statements**

#### **1.1 Unqualified Opinion**

The audit of the financial statements of the Department of Imports and Exports Control for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, the statement of financial performance for the year then ended and cash flow statement 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 Department of imports and Exports Control in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 18 June 2021. Annual Detailed Management Audit Report related to the Department in terms of Section 11 (2) of the Audit Act was issued on 19 July 2021. This Report is presented to the Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the Department of Imports and Exports Control as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Unqualified Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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 the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Department of Imports and Exports Control is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the the Department of Imports and Exports Control 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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### **1.5 Report on Other Legal Requirements**

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

## 2. Financial Review

### 2.1 Expenditure Management

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Out of the total net allocation of Rs. 22,770,000 for 10 recurrent expenditure items in the year under review, the actual expenditure was Rs. 21,008,156 and provision savings ranging from 5 percent to 52 percent were observed for the 10 items.	Agrees with your observations.	Estimates should be prepared on a realistic basis.
(b) Although the initial estimate of recurrent expenditure subject No. 1402 during the year under review had been Rs. 1,600,000, the revised cost estimate was Rs.2,050,000 and a variance of Rs.450,000 had been observed that is 28 percent of the initial estimate.	Unplanned gazettes had to be issued to control the rise in the exchange rate due to the Covid 19 epidemic and such expenditures have not been incurred in recent years and it is not possible to predict these expenditures by reviewing expenditure over the past years.	In preparing the initial estimates, the expenditure over the past years should be reviewed and the estimates should be prepared on realistic basis as possible.
(c) Although the net total provision for the four capital expenditure subjects for the years under review was Rs. 1,310,000, the total expenditure of the four subjects was Rs. 938,410 and it was observed that the provision savings ranged was from 9 percent to 52 percent.	Agrees with your observations.	Estimates should be prepared on a realistic basis.
(d) Provisions for two Expenditure Subjects for the year under review had been modified by the FR 66/99 Weeramon procedure and supplementary estimates. As a result, the difference between the basic estimate of the total cost of the two subjects Rs. 2,100,000 and the revised estimate of Rs. 3,335,000 was 59 percent.	296-01-01-2102 Provisions for this subject had to be increased due to the increase in expenditure on this subject of improvement of the existing computer system for obtaining applications for import and export licenses	In preparing basic estimates, the expenditure over the past years should be reviewed and the expenditure estimates should be as accurate as possible and estimates prepared on a realistic basis.

online.  
 296-01-01-2401 - Due to the reduction in expenditure on this subject due to restrictions on the conduct of training programs due to the Covid 19 epidemic situation, the remaining funds were transferred to the subject 296-01-01-2102 due to insufficient provisions.

## 2.2 Certifications to be made by the Accounting Officer

According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Accounting Officer was required to certify the following matters but had not acted accordingly.

Audit Observation	Comments of the Auuounat Officer	Recommendation
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<p>The Accounting Officer should ensure that the financial control and effective internal control system of the Department is formulated and maintained in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 and Although the effectiveness of the system had to be reviewed from time to time and necessary changes had to be made to make the system work accordingly, the statements had to be made in writing and a copy submitted to the Auditor General, but it had not submitted to State Auditor such reviews had been made.</p>	<p>Progress will be discussed at staff meetings from time to time to take the necessary steps to make financial and internal governance 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, 2020/04, 2020/05, 2020/06, 2020/07, 2020/08, 2020/09, 2020/10, 2020/11, 2020/12, 2020/13, 2020/14, 2021/01, 2021/02, 2021/03 and 2021/04 have been issued to strengthen the areas where internal controls identified during those discussions could be weakened.</p>	<p>Must comply with the provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>

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

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

Reference to Laws, Rules and Regulations	Observation -----	Comments of the Chief Accounting Officer	Recommendation -----
(a) Section 11E of the Import and Export Control Act No. 01 of 1969 as amended by Act No. 28 of 1978	Although importers who were importing contrary to the standard were required to be gazetted, the Department had not done so.	The gazette notification required for this has already been drafted and further discussions are being held with the officials of the department regarding the contents of the gazette notification.	In terms of Section 11E of the Import and Export Control Act No. 01 of 1969, the details of the importers who are importing should be published in a Gazette.
(b) Financial Regulations 891 (1) of the Democratic Socialist Republic of Sri Lanka	A bail register containing the names of the officers to be bailed out had not been prepared in alphabetical order and kept up to date.	Agrees with your observations. The department has already made arrangements to prepare such a document in the future.	A bail Register of the officers who are to be bailed out, including the information contained in Financial Regulation 891 (1), should be kept up to date.
(c) Public Administration Circular No. 30/2016 dated 29 December 2014 Paragraph 3.1	Although a fuel test was required after each fuel test for a period of 12 months or after the mileage of 25,000 km, 06 out of 07 vehicles in the department had not been inspected.	Agrees with your observations. I further inform that in accordance with paragraph 3.1 of Circular 30/2016, the fuel inspection for the other 06 vehicles will be carried out in a proper manner as per the audit query.	Fuel inspection should be carried out in accordance with Circular No. 30/2016 dated 29 December 2016.
(d) Budget Circular No. 07/2019 dated 04	Action should be taken to cut down on	The total expenditure of the	Action should be taken to purchase

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all non-essential and expenditure subject assets in priority low cost and Of 296-01-01-2102 accordance with purchase of office should be revised the above Budget equipment should be to Rs. 3,163,351 Circular considered as a low and the priority. However, the departmental company had service continued purchased a total of even during the Rs. 3,006,850 in period of Covid 19 assets under the epidemic. These Expenditure on costs were incurred Furniture and Office in order to maintain Equipment No. 2102 those services more during the year under efficiently under review. the Covid 19 guidelines.

## 2.4 Advance Settlement

The following Observation are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
The department had not taken action to recover the loan balance of Rs. 335,753 of the suspended officer by the end of the year under review.	The charge sheet issued by the Ministry of Public Administration and Disaster Management to the suspended R.D.M. Jayawickrema has been sent to him by registered post on 26 August 2019 and the charge sheet sent to the officer has not been returned to this department. I kindly inform you that he has not given any notice in this regard so far. I further inform that the Director General of Combined Services has been informed about this through the letter IECD / 8/2/15 dated 15-10-2019.	Action should be taken to recover the loan balance due.

## 3. Operational review

### 3.1 Vision and mission

The following observations are made on the activities planned to be performed but not completed by the Department during the year under review.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Under the Import and Export Control Act, No. 01 of 1969 of 16 January 1969, the purpose of the establishment of the Department of Import and Export Control is to	In accordance with the powers vested in the Controller General of Imports and Exports under the Import and Export Control Act No. 01 of 1969, the necessary	Under the Import and Export Control Act No. 01 of 1969, action should be taken to control adverse imports and exports in accordance with

take necessary action to control imports and exports which adversely affect the economy of Sri Lanka. At present, however, each subject was dealt with only on the basis of requests made by the relevant institutions. Therefore, the audit observed that there was no recognized scientific methodology or procedure to carry out the primary purpose of establishing this department and it was observed that the main function was to charge only the license fee.

action is already being taken to control imports and exports which adversely affect the economy of Sri Lanka in terms of purpose, vision and mission. Accordingly, 11 gazette notifications have been issued prohibiting the import of some items, suspending the import of some items and restricting the import of some items in order to control the adverse impact on the Sri Lankan economy in the face of the global epidemic in 2020.

the objectives, vision and mission of establishing the Department of Import and Export Control.

**3.2 Delays in project execution**

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>The Department of Import and Export Control had signed a Memorandum of Understanding (MoU) with ICTA on 03 February 2017 to liaise with the software development agencies for software system integration, networking and online application submission and to provide funding accordingly had done. However, Rs. 9,080,000 had been obtained from the Appropriation Act for this purpose from 2017 to 2020, out of which Rs. 8,119,035 had been spent. However, the project was not completed during the year under review.</p>	<p>In the year 2017, the Information Technology Agency (ICTA) announced that it was funding to develop the software system, but unexpectedly ICTA failed to develop the proposed software system as agreed. Despite repeated requests and discussions, it has not yet been completed. Although the first phase was launched in 2018, it could not be implemented as they failed to repair the defects. The Department decided to develop the existing computer system of the Department to enable online submission of applications and payment. Therefore, the work has been commenced using the funds allocated for the year 2020 and the facility of online submitting applications and online debit cards has been completed by now. Also, the online payment facility is at the testing stage and is to be</p>	<p>Actively intervene to complete the project to get the work done on time as planned.</p>

implemented.

**3.3 Asset Management**

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
According to the 2020 Annual board of Survey, between the last inventory balances and the physical inventory balances, an excess of 53 items and a shortages of 30 items had been observed. It had been therefore observed that the stock control of the department was at a weak level.	Inventory Register was corrected. Arrangements have been made to inventory the surpluses. This item, which was not found at the time of the survey, was later re-surveyed by a survey board. Further action will be taken on the decision of the Board of Survey.	Action must be taken to maintain stock control efficiently and effectively.

**3.4 Bail by Public Officers**

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Although the Head of each Department should ensure that the all officers who are to post bail must ensure that bail is granted as per paragraph 9.3 of the Ministry of Finance Circular No. 01/2020 dated 28 August 2020, the Department had not taken action to comply with the provisions of this Circular regarding the bail of public officers.	Officers who are required to post bail have been asked to post bail by internal circulars.	Action should be taken to follow the provisions of the Ministry of Finance Circular No. 01/2020 dated 28 August 2020.

**3.5 Management Inefficiencies**

The following observations are made

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Illegal imports had been prevented from entering the country by Gazette No. 2044/40 dated 09 November 2017 containing provisions to prevent the importation of	Agrees with your observations. Appropriate methodology for follow up after the issuance of import licenses, the Customs Department, the Department of Motor Traffic and this Department have been brought together to bring information online	The process of issuing licenses should be done in accordance with the gazette notifications and a follow up procedure should be established after the issuance of

goods which should be restricted and prohibited and by Gazette Notification No. 1971/10 dated 14 June 2016 to restrict the entry of old vehicles into the country. However, due to the lack of inter-relationship between the Customs Department and due to the weaknesses in the control system of the Department, the department did not have a follow-up methodology to follow up after the issuance of import licenses.

to a one level and to prepare an information system to facilitate the inter-relationship among the respective institutions. This will facilitate the exchange of data and prevent the presentation of forged documents.

import licenses.

- (b) Issuing import licenses for used vehicles  
 (i) 35 used cars had been imported in the year 2017 beyond the provisions of Gazette Notification No. 1933/13 dated 21 September 2015, gazette notifications for vehicles subject to license control and the instructions given to the Controller of Imports and Exports by the Minister of Development Strategies and the Minister of International Trade and the Minister of State. Of these, Rs.114.6 million customs duty had been lost in due to importation of 33 Mazda Rx8 petrol cars (1300CC) older than 03 years under Customs Combined

(i), (ii) The Director, Criminal Investigations has been instructed to conduct an inquiry by the letter dated 03.05.2021 into the matter after pointing out the audit inquiry pointed out that the license fees due on the C.I D value of imported vehicles and the surcharges due to the government have been reduced.

Importation of vehicles should be done in accordance with the Gazette Notifications and the instructions given to the Controller of Imports and Exports.

Answer has not been given.

Importation of vehicles should be done in accordance with the Gazette Notifications and the instructions given to the Controller of Imports and Exports.

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(ii) According to the Gazette Notification No. 1953/28 dated 11 February 2016, 15 percent of the P.I.R Value should be levied as a license fee for vehicles up to 5 years beyond the period of subject to the Licensing Control and 3 percent of the P.I.R Value on importation in excess of the Licensed Value An additional fee should be charged. Accordingly, a total of Rs. 23,913,420 had not been charged as the license fee of Rs. 20,404,375 and the additional fee of Rs.3,509,045..

(iii) In the months of August and October 2017, debit notices had not been issued for 06 customs records pertaining to two importers.

Answer has not been given.

Action should be taken to issue debit notices related to customs records.

#### 4 Human Resources Management

The following observation is made.

Audit Observation

Comments of the Accounting Officer

Recommendation

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The approved cadre for the year under review was 111 and there were 32 vacancies due to the actual cadre being 79. The department had spent Rs. 49 million for wage category during the year under review. Accordingly, the per capita expenditure had been Rs. 0.62 million.

Agrees with your observations. Vacancies have been sent to the Ministry of Public Service, Provincial Councils and Local Government on 2021-01-21 and 2021-01-30 to recruit the approved number of employees for the year under review and action is being taken to fill the vacancies at present.

The existing essential vacancies should be filled to enhance the efficiency of the Department.

