

## Head 247 – Sri Lanka Customs

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Sri Lanka Customs for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 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 30 June 2021 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Sri Lanka Customs was issued to the Accounting Officer on 22 July 2021 in terms of Section 11(2) of the National Audit Act No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 give a true and fair view of the financial position of the Sri Lanka Customs 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 Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is 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

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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 Sri Lanka Customs 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 Sri Lanka Customs 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**

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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 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

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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 regarding the observation in paragraph 1.6.3 (a) in this report had not been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Financial Position

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(a) **Deficit Income**

The following shortcomings were observed in the accounting of deficit income of Sri Lanka Customs.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
There was a difference of Rs. 43,355,433,032 between the balance of deficit income of 9 revenue codes as at 31 December 2019 and the balance as at 01 January 2020. Accordingly, the balance as at 31 December 2019 had been amended to 258 percent.	Agree with audit observations. Although the Department of Public Accounts has introduced the deficit income reporting form ACA 1 (i) introduced for the preparation of financial statements for the year 2020, the columns have been introduced to show the opening deficit income of the year, the deficit income reported during the year, the deficit income collected during the year and the balance at the end of the year, there is no provision for adjustment of deficit income or other figures applicable to the previous year. However, the value reported by the other divisions of the department which is maintaining the records related to the collection of arrears of taxes as at 31 December 2019 is also incorrect. It was identified that it should be amended as mentioned in the above from during the year 2020. Therefore, the identified tax arrears have been adjusted to the opening balance of the year 2020. Accordingly, the comparison statement showing how the opening balance for the year 2020 was made is submitted as “Annex 1”.	Deficit income should be recorded accurately.

**(b) Capital Expenditures**

The following shortcomings were observed in accounting for capital expenditures related to financial statements.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(i) According to the Vote Ledger, although the total expenditure related to the purchase of fixed assets as at 31 December 2020 was Rs. 22,826,946, it was being stated as Rs. 24,492,302 in the financial statements and due to that, it was observed a difference of Rs. 1,665,356.	According to the Expenditure Ledger as at 31.12.2020, the total expenditure under the Expenditure Subject 2103 is Rs. 24,785,470. Expenditure included in financial statements is Rs. 24,492,302. Accordingly, the difference is Rs. 1,706,832. The expenditure has been incurred for the installation of air conditioners in 4 hostels for custom officers of the Hambanthota Port and the Hambanthota District Secretariat has reported the expenditure by the monthly account summary of December 2020.	Accurate information should be recorded in the accounts.
(ii) According to the Statement of non-financial assets accompanying the annual financial statements and the Treasury computer printout (SA 82), the total purchases during the year under review was Rs. 32,254,378 but according to the vote ledger it was Rs. 40,461,613 and due to that it was observed a difference of Rs. 8,207,235.	The purchase of fixed assets included expenses incurred under object Nos. 2102 and 2103. Expenditure incurred under object 2401 (Training and Capacity Development) and object 2002 (Machinery Repair) is also included in the audit calculations. After deducting that value, the total expenditure under objects 2102 and 2103 will be Rs. 32,263,278 and the total number of purchases during the year under review was Rs. 32,254,378 according to the Statement of non-financial assets. Accordingly, the difference is Rs. 8,900. This difference is due to the fact that the Rs. 8,900 worth of blender is not included in the total under electrical items purchased on 18.11.2020 according to the CIGAS fixed assets register. As it is due to a technical error in the CIGAS programme, I will discuss with the Department of Public Accounts and take action to rectify it.	Arrangements should be made expeditiously to discuss and rectify with the Treasury.

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| (iii) | Office equipment vote ledger bearing No. 2102 office equipment that it should be mentioned under the 2102 worth Rs. 22,473,930 was included in the No. 2103 of the balance of plant and machinery equipment.  | Payments for vouchers will be made on a case-by-case basis and may be re-examined if the audit provides relevant information.   | Expenditure in the correct object codes should be noted.                    |
| (iv)  | The total expenditure under the subject of fixed assets rehabilitation and improvement expenditure No. 2002 is Rs. 2,292,598 as at 31 December 2020, but it was stated as Rs. 3,712,414 in the statement of ACA 2(1) and due to that it was observed a difference of Rs. 1,419,816. | Expenditure incurred under the object code 2002 was Rs. 3,712,414 as at 31.12.2020. That value is reflected in the vote ledger as well as in the financial statements. Accordingly, there is no difference. | Information of the vote ledger and financial statements should be accurate. |

## 1.6.2. Deposit Receipts and Payments

The following deficiencies were observed in the accounting of deposit payments and balances related to financial statements.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) There was a difference of Rs. 101,917,351 between the balances in the ACA 4 statement for deposit accounts as at 31 December 2019 and the opening balances in the ACA 4 statement for the year 2020.	The final accounts for the year 2019 are based on the treasury printed balances and the final accounts for the year 2020 are based on the balances mentioned in the departmental ledger. Accordingly, this change has made. However, this is a difference of opening balance existing over the years.	These changes in accounts that have been around for a long time should be identified and resolved.
(b) It was observed a difference of Rs. 30,755,216 and Rs. 1,537,785 respectively in relation to the deposit	(i) The reason for the difference in debits ----- Although the amount of Rs. 1,537,785 should be credited to the Account No. 18/128	Accounts should be prepared to match

accounts compared with the debits and credits in treasury printed note and department books.

(6000/0000/00/0001/0035/000) for the withholding deposits on goods brought in by the passengers, this change is due to a correction by the journal J/20/12/12X in December 2020 that was credited to the 1/35 account by mistake when entering the CIGAS Programme.

the data in the treasury records and the data in the department books.

- (ii) An amount of Rs. 481,876 had been erroneously debited to the Tender Deposit Account (6000/0000/02/0186/000) in May and September 2020.
- (iii) According to the department books of the Custom officers' reward fund (6000/0000/00/0006/0062/000), the total number of debits should be corrected to Rs. 1,297,069,865 and the difference should be corrected to Rs. 28,735,576. Accordingly, this difference is due to the journal entries in the above credits and the journal entries based on the correction of errors in the previous year.

The reason for the difference in credits

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Although Rs. 1,537,785 should be credited to the account 18/128 (6000/0000/00/0001/0035/000) for withholding deposits on goods brought in by passengers, this change is due to an error crediting the 1/35 account when entering the CIGAS Programme.

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| <p>(c) Variation of Rs. 93,229,983 were observed in 04 account balances in the department books and in the treasury printed notes as at 31 December 2020 with respect to the deposit accounts and a comparative statement stating the reasons for the changes had not been submitted to the audit.</p> | <p>Account 18/128 should have been credited, but this error was corrected in December 2020 by the journal J/20/12/12X, which erroneously credited to the account 1/35 when entering the CIGAS Programme.</p> | <p>Identify the differences and take appropriate action and get adequate action to prevent such a situation from occurring in the future.</p> |
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**1.6.3. Lack of Audit Evidence**

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 The following observations are made.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(a) A total of Rs. 2,939,988,344 had been paid as Rs. 1,925,498,453 from the government consolidated fund in the year 2020 as salaries, wages, overtime, holiday payments and incentives for 2399 Sri Lanka Custom officers and Rs. 1,014,489,891 was paid by the overtime cargo examination fees and customs' information and technology communication fund and finger print reports proving that the service was reported as proof of that expense were not submitted to the audit.</p>	<p>Overtime payments are made at the head office, provincial offices, ports and airports on the certification of the relevant Divisional Supervising Officer. Further, a report on this finger printing has been submitted to the Committee on Public Accounts (COPA) held on 06.04.2021.</p>	<p>(i) Strict observance of the general orders of the government and the orders of the Committee on Public Accounts should be taken into consideration.</p> <p>(ii) Acting in accordance with the provisions of the Financial Regulations and Establishment Code regarding financial irregularities.</p> <p>(iii) Formalization of unsatisfactory internal controls relating to employee management.</p>

(b) Although a total of Rs. 7,210,982 had been spent from government funds as Rs. 6,357,982 for 1939 pairs of footwear, Rs. 853,000 for 3412 pairs of socks purchased by Sri Lanka Customs in excess of their necessity, relevant evidence was not submitted to the audit to confirm that these shoes and socks were received at the store or released from the store.

(c) There was no written evidence in the relevant division showing how the value of the items offered for sale was assessed by the Central Deposit Division by calling for tenders in the year 2020. Accordingly, the accuracy of the relevant tax calculations could not be verified.

03, 03 (c) and (d) of the audit query dated 04.05.2021 and My letter No. ESD/GE/03/01/2021. This has provided answers by the store procedure for issuing footwear and socks.

The value of goods offered for sale by the Central Deposit Division is called by the Customs Price Inspection Division. The submission of goods for inspection by the appraisers of the Price Inspection Division is done by the Central Consumption Division and all the details of how the price was fixed as per the provisions of the Customs Ordinance are in the custody of the Price Inspection Division. After fixing the relevant prices for each item, the Price Inspection Division sends the sealed custom assessment reports to the Central Disposal Division for submission to the tender board. Since the relevant items in the Customs tender are awarded to the highest bidder who exceeds the customs assessment value,

Purchasing should be done as per the procurement guidelines according to the requirements.

Act in accordance with departmental orders 790.



the tax payable to the government is calculated on the basis of the bid submitted by the relevant bidder and not on the customs assessment value. Therefore, I further state that the customs assessment price will not be taken into account for calculating the tax amount except for the purpose of selecting the highest bidder for the tender awarding. The Central Disposal Division keep a record of the bids submitted by the bidders for each item, the price at which the item was awarded, and the amount of tax charged accordingly.

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| <p>(d) Rs. 20,321,912 by cash and Rs. 94,819,272 as the corrections had been made as repayments from income during the year under review, but the evidence required to confirm those payments had not been submitted to the audit.</p>   | <p>The records of return of income and the journal entry of corrections can be maintained and submitted for audit.</p>   | <p>Evidence required confirming the payment in accordance with Financial Regulations should be duly submitted for audit.</p> |
| <p>(e) There was Rs. 5,561,829 without taking action to release the required tax paid bank guarantees from the period of year 2005 to 2007 and 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>According to the current reports of the office, there are 02 valid bank guarantees for the year 2005 and 02 valid bank guarantees for the year 2007. There is a case pending in the Supreme Court for the bank guarantees No. 2005/66, and there are also cases pending under the</p> | <p>That should be considered when obtaining and releasing bank guarantees.</p>   |

application No. 68/2016 in the Supreme Court and the Court of Appeal for the guarantees No. 2007/66 i and 2007/66 ii.

(f) During the period of 04 1/2 years from 01 January 2015 to 30 June 2019, Sri Lanka Customs had collected a total of Rs. 33,845,962,239 through customs investigations. However, the relevant evidence to verify the penalty income, sales revenue, confiscation income or the value of the goods on which the determination of customs and other revenue is determined, the manner in which those values were determined and the customs revenue lost etc. are did not submitted for audit by any section of the Sri Lanka Customs.

It has been noted to make inquiries and present facts in this regard.

Should be maintained records in properly as formal inspection can be done.

**2. Financial Review**  
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**2.1 Revenue Management**  
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**2.1.1 Preparation of Revenue Estimates**  
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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Export tax revenue had declined by Rs. 13,653,027 or 12 percent and petroleum excise tax revenue declined by Rs. 11,888,924,706 or 18 percent compared to estimated revenue with actual revenue. This was due to the Covid 19 epidemic situation.	The audit observations are correct.	That the estimates should be prepared prudently.

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| (b) | Due to the reduction in import tax rates and the restriction on imports, the import tax revenue was Rs. 25,817,407,597 and it was a decline of 18 percent as a percentage. Actual income was 16 percent lower than the estimated value of the special commodity levy, which was at Rs. 15,291,047,032. | The audit observations are correct. | -Do- |
| (c) | Due to the restriction on vehicle imports, the actual tax revenue on vehicle ownership decreased by 51 percent over the estimated revenue and the variance decreased to Rs. 742,478,146. This was due to the decrease in tax revenue.  | The audit observations are correct. | -Do- |
| (d) | Although the revenue was estimated Rs. 4,800,000,000 from fines and confiscation, the actual income was Rs. 2,889,218,648. Due to that, it was observed 40 percent decrease or a deficit of Rs. 1,910,781,352.   | The audit observations are correct. | -Do- |

## 2.1.2 Comparison with Previous year's income

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) 0.2 percent of the total tax revenue for the year or Rs. 96,346,973 had been collected under the export tax revenue code and the collected revenue was Rs. 170,442,852 in previous	When compared with the year 2019, exports have declined sharply during the year 2020. This has directly contributed to the decrease as well as the export cess tax rate. This situation was due to the decline in exports under the	Achieving quantitative income growth in the most optimal way.

year. Accordingly, the export tax revenue for the year under review had decreased by Rs. 74,095,879 or 43.47 percent as compared to the previous year.

Corona situation. The audit observations are correct.

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| (b) Rs. 47,295,124,841 had been collected under the import cess tax revenue code during the year under review and the revenue collected under this revenue code in previous year was Rs. 48,403,019,454. Revenue for the year under review compared to the previous year was decreased by Rs. 1,107,894,613 or 2.29 percent. | (a) Imports have fallen sharply. The audit observations are correct.   | -Do- |
| (c) Rs. 2,013,974,216 had been collected under the export cess tax revenue code and the revenue collected under this revenue code in previous year was Rs. 2,299,688,371. Revenue for the year under review compared to the previous year was decreased by Rs. 285,714,155 or 12.42 percent.                                 | (b) A large number of items have been temporary suspended. As a result, the cess tax on imports has come down relatively. The audit observations are correct.  | -Do- |
| (d) The petroleum excise duty was decreased by Rs. 8,629,228,352 or 13.98 percent compared to the previous year which is representing the Rs. 53,111,075,294 or 16.67 percent from the Rs. 566,462,925,975 which   | In the year 2020 compared to the year 2019,<br>The main reason for the decrease in petroleum excise duty is the relative decline in petroleum imports in 2020. This situation was due to the restriction of fuel imports under the corona situation. The audit observations are correct. | -Do- |

was total revenue of Sri Lanka Customs during the year under review.

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| <p>(e) Revenue from motor vehicle excise duty was Rs. 48,759,937,998 and revenue collected in the previous year was Rs. 130,377,881,902 as compared to the previous year, the revenue for the year under review was decreased by Rs. 81,617,943,904 or 62.6 percent.</p> | <p>Due to the temporary suspended importation on motor vehicle imports, the excise duty on motor vehicles has been reduced drastically from March 2020 due to non-importation of motor vehicles. The audit observations are correct.</p> | <p>-Do-</p> |
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### 2.1.3 Arrears of Tax Revenue

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The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
<p>(a) Out of the total tax arrears as at 31 December 2020, Rs. 22,798,404,254 or 36 percent represents the import tax arrears. Out of this, Rs. 6,370,798,202 is those that have existed since the year 2017.</p>	<p>I agree with your observations.</p>	<p>Action should be taken to collect the revenue arrears to the government without delay.</p>
<p>(b) Rs. 16,082,423,443 or 25 percent of the total tax revenue as at 31 December 2020 represents special commodity tax. Out of which Rs.4,488,152,878 were outstanding income from 2017 and that value remained uncollected until the end of the year under review.</p>	<p>-Do-</p>	<p>Should be act in accordance with the instructions given in Financial Regulations 128 and Public Finance Circular 01/2015.</p>

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| (c) | The regional infrastructure development tax, which was abolished in 2011, was due to collect tax arrears of Rs. 108,659,190 as at 31 December 2011 and the department had not taken action to recover that value during the year under review.   | -Do-   | -Do-  |
| (d) | Petroleum production tax arrears of Rs. 3,233,204,301 represent 5 percent of total tax revenue.  | The amount to be charged for fuel borrowed from government institutions for essential services and Rs. 11,193,111,605 has been settled in the year 2020.   | Should be act in accordance with the instructions given in Financial Regulations 128 and Public Finance Circular 01/2015. |
| (e) | Rs. 10,275,489,817 out of the tax arrears or 16 percent representing the port and airport development tax and out of which Rs. 2,868,111,695 is the arrears of revenue from the year 2017. Further, out of the total tax revenue, Rs. 6,152,560,946 or 9.69 percent is represented by the import cess tax amount as at 31 December 2020 and out of that, Rs. 1,716,039,908 has remained uncollected since the year 2017. | I agree with your observations.  | -Do-  |
| (f) | Out of the overall arrears of tax revenue as at 31 December 2020, Rs. 4,711,376,538 or 7 percent is represented by product special provisions motor vehicles tax value and out of that, Rs. 1,314,930,120 has been in arrears since the year 2017.   | I agree with your observations. These customs duties are in arrears as a result of a concessionary arrangement made many years ago for the release of goods to government ministries and other affiliates on the basis of post-payment of customs duties with the approval of the Treasury on the basis of various requirements. In order to settle these arrears, information regarding the arrears of each | -Do-  |

institution has been provided to those institutions. Measures have been taken to obtain information on imported goods from the customs publication division and to keep them informed to these institutions in continuously.

Action has been taken to recover Rs. 22,525,899,343 in arrears of customs duty during the year 2020 and due to the need of expedite these activities, a committee consisting of officials from the Department of National Budget, Management Audit and Sri Lanka Customs has been appointed in this regard on the instructions of the Management Audit Committee of the Ministry of Finance. It is taking further action to recover the arrears of customs duty.

**2.2 Management of Expenditure**  
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Audit observations on the preparation of annual budget estimates and provision savings are given below.

**2.2.1 Basic and Revised Estimates**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) Recurrent and capital expenditure variances ranged from 17 percent to 22 percent between the initial estimates and the revised estimates on 03 objects during the year under review.	Customs officers work in various customs sub-offices throughout the island and are required to reimburse combined allowances and travel expenses for travel made under the	The estimates should be prepared prudently.

departmental transfer scheme as well as for various official purposes. There are delays in sending vouchers to the head office as payments are made under the centralized payment system. Accordingly, a large amount of travel expenses related to the previous year have to be paid in the current year. Accordingly, nearly Rs. 15 million has been paid as travel expenses in the year 2020 for the year 2019. Further, the recruitment of new officers has also increased the value of travel expenses.

- (b) The initial estimate is Rs. 12,100,000 for the overtime and holiday payments under the object No. 247-1-1-0-1002(2) and due to the revised estimate was Rs. 14,100,000, it was observed resulting in a variance of 17 percent between estimates. The audit questioned whether the subject of overtime payment object was higher than the previous year, although accounting officials had stated that there would be provisions left over from many expenditure subjects due to non-reporting and restriction of officers on Covid 19 situation in 2020.
- Due to the increase in the salaries of the officers, the expenditure on overtime has increased relatively and the officers had to be employed in overtime when the restrictions were removed to perform the missed duties during the periods which restricted the attendance of the officers under the Covid 19 situation.
- Be prudent in giving prior approval to pay for an object.



- (c) It was observed a variation of 20 percent between the original estimate and the revised estimate for domestic travel expenses under the expenditure subject No. 247-1-1-0-1101. Also, the estimated cost for those subjects was Rs. 67,500,000 in previous year and the revised estimate for the year 2020 was Rs. 90,800,000. The estimate for the year 2020 had increased by Rs. 23,300,000 as compared to the previous year. The audit questioned the extraordinary growth in spending on domestic travel, despite the fact that many expenditure items remained in the Covid 19 epidemic.
- Due to practical issues, travel expenses in the previous year had to be paid in the current year in excess of the estimated amount in 2020 as well. Expenditure has also increased due to the increase in the number of officers on duty, even during periods when the number of officers called for service has been reduced. These expenses have also increased due to the fact that the officers who were engaged in various other essential duties of the department including the Shroff office duties of the department who perform essential duties have to be deployed on duty even under restrictions.
- Do-

### 2.2.2 Saving Provisions

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 The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Recurrent Expenditure  Allocation savings ranging from 09 percent to 18 percent were observed as a percentage of the net allocation for 07 objects. Accordingly, Rs. 3,416,000,000 had been allocated for recurrent expenditure during the year under review and out of that, Rs. 697,476,786 was remained as	Agree with the audit observations.	The estimates should be prepared prudently.

20 percent.

(b) Capital Expenditure

Rs. 162,200,000 had been allocated for capital expenditure for the year under review and out of that, 63 percent was remained. Accordingly, provision saving ranging from 09 percent to 100 percent was observed as a percentage of the net allocation for 10 objects.	Agree with the audit observations. Due to the providing provisions in the interim account on several occasions and due to the Corona epidemic in the year 2020, it was difficult to manage the expenditure as expected.	-Do-
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**2.3 Incurring of Liabilities and Commitments**

**2.3.1 Reporting of Liabilities and Commitments**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The total liabilities of Rs. 26,623,190 incurred during the year under review for 10 objects were not included in the treasury printouts.	I agree with the observations regarding objects other than object No. 247-1-1-0-1403. Value subsequently reported to the Department of Public Accounts as per Guideline 05/2020 Rs. 4,069,204  Commitments and liabilities reported by CIGAS programme (Included in Treasury printouts) Rs. 7,523,372  Commitments and liabilities in accordance with note III Rs. 11,592,576	That accounts should be accurately reported.

(b) A discrepancy of Rs. 46,524,640 was observed between the treasury printouts and the declaration of liabilities for 05 objects. I agree with the observations on objects 1002,1003,1101,1202 and 1409. However, the information related to the object 1403 is as follows. -Do-

Commitments and liabilities in accordance with note III Rs. 11,592,576

Commitments and liabilities reported by CIGAS programme (Included in treasury printouts) Rs. 7,523,372

(c) The value of the liabilities shown in the final account, but not mentioned as liabilities in the commitments and liabilities submitted with the final account for the year 2020 is Rs. 47,628,444. The amount of Rs. 2,650,644 mentioned in the name of Building Maintenance Company as indicated by the audit is included in the liability documents. The remaining values have been identified and reported as liabilities, but have not been included in the liability list. -Do-

(d) According to an agreement reached by the department with a private company for a container scanning project, Rs. 587,725,600 was in questionable condition and the amount was not shown in the accounts as a commitment or liability of the institution. The container scanning project is being taken over by the government and the relevant payments have not been made until it is completed. Further action can be taken after obtaining the relevant approvals from the Cabinet. The public sector accounting policies should be followed in the preparation of accounts.

- (e) Emphasis is placed on the optimal utilization of the provisions provided by the Annual Appropriation Act and the need to maintain an information system on commitments and liabilities with a view to preventing excesses of commitments and liabilities from exceeding the approved provisions, and reporting information to the Treasury on a daily basis and comparing treasury information with departmental information. The treasury has issued several circulars from time to time including various instructions and guidelines in this regard. However, it was observed that the Sri Lanka Customs had not complied with the circulars.
- I pay attention to the answer (a) above.
- That the instructions of the Treasury circular should be complied.

### 2.3.2 Incurring Liabilities in excess of the Provisions

----- <b>Audit Observation</b> -----	----- <b>Comments of the Accounting Officer</b> -----	----- <b>Recommendation</b> -----
In violation of the circular provisions and Financial Regulations, the Sri Lanka Customs had incurred liabilities amounting to over Rs. 2,908,508 in respect of 02 objects in the year 2020.	Payments had to be made as certain liabilities had to be identified after the end of the financial year and the relevant services had already been obtained.	Should not be incurred liabilities exceed beyond the provisions.

## 2.4 Certification of the Accounting Officer

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The Chief Accounting Officer and the Accounting Officer should certify that an effective internal control system is available for the financial control of the Sri Lanka Customs in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018 and although it was necessary to review the effectiveness of the system from time to time and to make the necessary changes to ensure that the systems were operating effectively, statements that such reviews had not been submitted to the audit.</p>	<p>Under the F.R. 135, in relation to the set up and maintain an effective control system for financial control, such as delegating powers and delegating responsibilities between several transaction officers in relation to the Finance Division. However, it is noted to comply with the provisions of the Audit Act in the future.</p>	<p>That action should be taken in accordance with the Provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>

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

Instances of non-compliance with the provisions of laws, rules and regulations observed during the sample audit tests are analyzed in below.

Reference to Laws, Rules and Regulations	Observation	Comments of the Accounting Officer	Recommendation	
(a)	<p>Paragraphs (a),(b) of the Extraordinary Gazette notification No. 2117/48 of the Democratic Socialist Republic of Sri Lanka dated 04 April 2019.</p>	<p>All motor vehicles cleared by the Sri Lanka Customs had to be registered in their personal name within 30 days from the date of release according to the gazette notification and under the proposed tax concession. The relevant excise duty is payable at the time of clearance of such unregistered motor vehicles.</p>	<p>The answer given by My No. ESD/GE/3/16/2020 and the audit query dated 26.09.2020 is relevant in this regard.</p>	<p>That the rules mentioned in the relevant gazette notification should be followed.</p>

However, despite the refusal of the Department of Motor Traffic to register the Nissan used XI Trail in the Customs Note No. 21/215 dated 02 September 2019, the bank guarantee for the vehicle was released and due to that, the government had lost Rs. 8,112,446 in taxes.

(b) Establishment Code of the Democratic Socialist Republic of Sri Lanka

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| <p>(i) Paragraph 1.3 of Chapter XXVIII</p> | <p>The attendance records maintained by the relevant divisions regarding the arrival and departure of the officers had not been submitted to the regular supervision of a staff officer.</p> | <p>Supervision will be done.</p>  | <p>Act in accordance with XXVIII of the Establishment Code.</p> |
| <p>(ii) Paragraph 04 of Chapter XXIV</p>   | <ul style="list-style-type: none"> <li>• No action had been taken to recover the loan balances of Rs. 443,490,830 less than 01 year and Rs. 531,766 more than 05 years.</li> </ul>           | <p>The loan balance of retired officers under 01 year is Rs. 4,466,381 out of which Rs. 3,147,273 has been settled up to now in the year 2021. Unsettled loan balances of Rs. 32,050 have been requested to remove from the books under the outstanding loan balances of less than Rs. 10,000 due from retired officers above 05 years. Approval has been obtained from the Additional Secretary to the Ministry of Finance by letter No.</p> | <p>Act in accordance with XXIV of the Establishment Code.</p>   |

MFI/02/01/cus/53 dated 10.02.2021 (General 285) to deduct losses from the book under F.R. 109.

Accordingly, out of the Rs. 531,766, Rs. 11,041 will be removed from the books.

- Rs. 444,151 less than 1 year to be charged from suspended officers, Rs. 68,800 between 03 to 04 years, Rs. 106,220 between 04 to 05 years and Rs. 1,411,666 over 05 years had not be recovered. Out of the Rs. 1,411,666 due from the suspended officers, Rs. 20,009 will be removed from the books. Investigations are underway into the officers who have been suspended for less than 01 year. Therefore, action will be taken to recover the amount of Rs. 444,151 after the completion of the investigation.

-Do-

- (c) Ministry of public Administration and Home Affairs Circular No. 09/2009 dated 16 April 2009. Although all officers of government institutions were required to record their arrival and departure using the fingerprint machine, no officer of the Sri Lanka Customs had done so. Overtime payments have been made at the head office, provincial offices, ports and airports on the assurances of the relevant Divisional Supervising Officer. Further, this fingerprint report has been submitted to the Committee on Public Accounts (COPA) held on 06.04.2021. Action should be taken in accordance with the relevant circular.

- (d) F.R. 485(4) and paragraphs 1:1:6 and 1:1:7 of Budget circular No. 118 dated 01 October 2004. Although it should be ensured that there are no unresolved loan balances between the departments after 03 months have elapsed since the transfer of an officer, there were unresolved debt balances of Rs. 291,181 for less than 01 year after transfer and Rs. 138,551 over 05 years. The loan balance per transferee is Rs. 210,099 settled in February 2021. Another person has been appointed as a Public Relations Officer of a Minister and with the abolition of that post; the loan balance has been transferred back to this Department by the Ministry of Ports Development and Shipping. By mistake, the loan balance has been noted in the column of less than 01 year. The information about the transferred place of work of the officer is being sought. The loan balance of the other officer has been credited to the B account of this Department by the Ministry of Ports, Shipping and Southern Development by the Account Summary of October 2019. That officer's details are also being sought. Act in accordance with Financial Regulations and Circulars.
- (e) Chapter 07 of the Government Procurement Guidelines. The institution did not seek the assistance of a Technical Evaluation Committee in the procurement of shoes and socks purchased in excess of the requirements. The answers given by My No. ESD/GE/03/01/2021 and audit query 05 (a) and (d) dated 04.05.2021 is applied to this. That the activities should be carried out with proper transparency as per the provisions of the Government Procurement Guidelines.



- (f) Paragraph 5.1.2 of the Management and Audit Circular No. DAM/01/2019. The audit observed that although it was the duty of the Audit and Management Committees to pay attention to the audit reports of the Internal Auditor and the Auditor General and to rectify the matters pointed out in those reports, the rectification of the deficiencies pointed out in the audit queries was not at a satisfactory level. I would like to draw your attention to the audit observations submitted on 06.10.2020 for your audit query No. PUR/A/CUS/2020/D/04 dated 31.08.2020 in this regard. Accordingly, a Class I officer of the Sri Lanka Accountants' Service has been permanently appointed to the post of Internal Auditor of the Department with effect from 01.02.2021 and deficiencies pointed out by the Government Audit Division are being maintained in accordance with the Circular No. DMA/01/2019 of the Management Audit Department in accordance with the correct and up to date. Proper follow-up should be done on the Auditor General's audit reports to rectify the deficiencies pointed out.
- (g) Customs Department Order 375 (3) Officers of all divisions and sub offices were required to maintain a movement registers for departure from the office premises and to be supervised by a staff officer or officers in charge of the premises, but this was not done. Actions are being taken to advise all divisions and sub- offices about maintaining the movement register. Supervision of the relevant officers should be done as per the orders of the department.

- (h) Paragraph 10.02.01.02 of the Sri Lanka Customs Recruitment Procedure
- 06 officers were promoted to the post of Additional Director of Customs and Director of Customs without following the instructions given on the qualifications to be considered in the appointment of the Director of Customs.
- According to the promotion system prevailing in the Department of Customs, promotions are given in that order taking into consideration the seniority of the officers when vacancies arise. To execute with exception to Section 10.2.1.2 (1) of the procedure for recruitment to executive grade only for the officers who have been recruited to the service up to 15.10.1979 by the Commission's letter No. PSC/APP/6/679/2016 dated 02.05.2017 and it has also been informed that the executive grade i should be upgraded considering the necessity of the procedure 10.2.1.2 (1) for recruitment along with other conditions and qualifications mentioned in the recruitment when giving promotions to the officers recruited from there onwards. Even though the officers have already been appointed to the executive grade i on an acting basis according to their seniority, the
- Should be followed the rules of the recruitment procedure of the department.

Public Service Commission has made recommendations in granting promotions to the executive grade with considering these factors.

## 2.6 Abnormal Transactions

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The following observations are made in this regard.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) It was observed that an officer who had been on compulsory leave in connection with a Customs investigation had gone abroad without formal approval while being prevented from going abroad.	Information is being checked.	Obtaining the necessary approvals to go abroad.
(b) In accordance with Section 153 (2) (b) of the Customs Ordinance No. 17 of 1869, an appropriate procedure should be devised for obtaining the consent of the Minister of Finance for the distribution of reward from the reward fund, but Rs. 19,748,129,578 had been paid as reward money during the 22 years from 1999 to 2020 without confirming that the approval of the Minister of Finance has been obtained for the Departmental order No. PL 118 dated 28 January 1988 issued by the Department for the distribution of reward money by Customs.	I do not agree with your observation in terms of Section 153 (20 (b) of the Customs Ordinance No. 17 of 1869 regarding the payment of reward money. It can be assumed that the necessary approval has been obtained in issuing the department Order No. 118 of 1988 and it is necessary to consider into this matter further.  A committee has been appointed by the Ministry of Finance to take a decision regarding future activities.	Submitting the methodology approved by the Minister to the Audit. If there is no approved procedure, action will be taken against the officers who did so in accordance with the Establishment Code.

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| <p>(c) The Customs had withheld US\$ 53,455 for attempting to carrying money out of the country without proper permission and at the request of the Minister of Finance (Under Section 164 of the Customs Ordinance), the value Rs. 1,603,650 of the loss incurred due to the action taken to return the money without reasonable facts was noted as losses under the F.R. 106 and 113.</p> | <p>I agree with the audit observations.</p> | <p>Although the Minister has the power to release retained goods and other property under Section 164 of the Customs Ordinance, it is not authorized to incur losses or other expenses. Accordingly, loss/ overpayment is illegal.</p> |
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## 2.7 Issuance and Settlement of Imprests

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The following observations are made in this regard.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(a) In accordance with Financial Regulations 371 (2) (b) amended by Public Finance Circular 03/2015 dated 14 July 2015, the interim arrears obtained for any particular purpose are to be settled immediately upon completion of Rs. 1,746,850 received by 17 officers on 23 occasions from the duration of 33 days to 313 days.</p>	<p>My answer to your audit query No. PUR/A/CUS/2020/11 is given by the paragraph 01 of the letter No. ESD/GE/03/04/2021 dated 11.05.2021 (Annexure 02).</p>	<p>Act in accordance with Financial Regulations and Public Finance Circulars and taking formal action against the relevant officials.</p>
<p>(b) According to Financial Regulation 371 (2) (b), the maximum amount of advances had been made to the officers in excess of the limit of Rs. 100,000.</p>	<p>Paragraph 04 of the above article provides the answer.</p>	<p>Should be complied with Financial Regulations.</p>

## 2.8 Operation of Bank Accounts

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Following are the shortcomings revealed in the sample audit conducted regarding the operating of bank accounts.

	<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) (i)	<b>People's Bank Account No. 001-1-001-2-9026644</b> It was observed that the total of Rs. 125,631 worth of cheques which are exceed the validity period of 06 months issued as at 31 December 2020, but not presented for payment. These cheques had not been act in accordance with Financial Regulation 396.	The value of cheques valid for that day which exceeded 06 months is Rs. 1,882,260. A total of Rs. 1,756,628 worth of cheques has been cleared from these cheques as at 30 April 2021. It was remained only cheques of Rs. 125,631.	Should be complied with Financial Regulations.
(ii)	Unrecognized receipts as at 31 December 2020 are Rs. 148,523 and unrecognized payments are Rs. 153,243 and evidence confirming the identification of those balances was not presented to the audit.	Unrecognized receipts were Rs. 148,523 and unrecognized payments were Rs. 153,243 as at 31 December 2020.	The relevant balances should be identified and submitted to the audit.
(b) (i)	<b>Bank of Ceylon Account No. 0007041606</b> It was observed that there are cheques amounting to Rs. 466,415 which exceeded 06 months of the validity period are in the value of cheques unrepresented for payment as at 31 December 2020. Financial Regulations 396 had not been complied with in this regard.	Only the remained cheques as at 31 December 2020 are worth Rs. 466,415.	Should be complied with Financial Regulations.

- (ii) Unrecognized receipts and Action is being taken to identify Relevant balances and unrecognized payments as at 31 and rectify the balance of Rs. should be identified December 2020 are Rs. 1,238,868 1,224,852 for unrecognized receipts and submitted to and Rs. 2,726 respectively and as at 31 December 2020. the audit. evidence confirming the Also, action is being taken to identification of those balances was identify and rectify the balance of not presented to the audit. unidentified payments of Rs. 2,726.00 as at 31 December 2020.

### 3. Operating Review

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#### 3.1 Losses and Damages

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The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Following a Customs investigation by the Central Disposal Division of the Sri Lanka Customs into the stockpiling of 05 containers containing 105,570 kilograms of imported pal oil unsuitable for human consumption, which were recommended for destruction and the release of it to the market and it was revealed that the officers of the Central Disposal Division who conducted the investigation had acted against the main objective of establishing the unit. It was observed that by allowing the Customs to carry out investigations as well as the destruction or sale of goods in the custody of the division which carried out such investigations, the division itself has been given the opportunity to carry out organized irregularities. The Division had also submitted false information stating that information about the	The government has not incurred any loss due to the removal of those 05 containers from the port. The Central Investigation Bureau is conducting an investigation into the 05 containers mentioned in the CIB/INV/230/2019 file and 04 containers out of the 05 containers have already been seized. According to Section 162 of the Crude Farm Oil Customs Ordinance containing these 04 containers, the Central Disposal Division of the Sri Lanka Customs is engaged in the production and sale of animal feed due to the Department of Animal Production and Health has been informed that Crude Farm Oil containing in that is being suitable for animal feed preparation. Relevant samples have been sent to the Price Inspection Division of the Sri Lanka Customs to determine the value of the oil contained in	Should act in accordance with the Customs Ordinance and departmental circular regulations. Formal action should be taken to the relevant responsible officers.

importer could not be found and the final report on the investigation had not been forwarded to the Director of Customs of the Central Excise Division. The final decision of the investigation was taken by the Superintendent of Customs and the Deputy Director of Customs.

these containers.

At the end of this investigation, if the government incurs any loss during the customs inspection to be held under Section 8.1 of the Customs Ordinance, the loss can be recovered from the culprits on the orders of the investigating officer conducting the customs inspection.

- (b) The NC committee of the Sri Lanka Customs had taken action to release a luxury Toyota Land Cruiser worth nearly Rs. 9 million which was imported with public telephone equipment, by levying a tax of only Rs. 1.5 million under the special purpose vehicle category. If this type of vehicle was cleared under the passenger transport category, a tax of nearly Rs. 56 million would have been levied. As a result, the government had lost of Rs. 54,642,528 in tax revenue.
- The Central Investigation Bureau has initiated a Customs inquiry into Toyota Land Cruiser under the No. CIB/INV/2019/0206 and referred the matter to the Nomenclature and Classification Committee of the Sri Lanka Customs for obtaining the correct customs clearance numbers. The committee concluded that the classification number was 87059091. Based on that decision, the vehicle was released to the importer,. Therefore, no such tax revenue has been lost as per the decision of the NC Committee.
- That action should be taken to secure government revenue by recovering the due revenue. The powers conferred on the NC Committee of the Sri Lanka Customs by the Customs Ordinance, the power of appeal against the decisions of the members of the Committee and the role of the NC Committee should be formulated in a formal and transparent manner.

### 3.2 Management Inefficiencies

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The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Importation of DI pipes and fittings with JAICA aids (i) In terms of section 72 of the Customs Ordinance, in the first instance, the Sri Lanka Customs had given the opportunity to a private institution to store goods without paying taxes and for that 08 custom cusdecs had been issued. Accordingly, US \$ 5,139,621 items were to bond. According to section 86 of the Customs Ordinance, the invoice value of the previously declared inventory had to be declared at the time of release from the warehouse. But using locally made invoices, the relevant value as US\$ 6,350,364 were imported by cusdecs with false information. It was valued at US\$ 1,210,743 and given opportunity to get more to the relevant institution.	Necessary steps have already been taken to get further action in accordance with the recommendations of the report of the investigation conducted by a special committee appointed by the Secretary to the Ministry of Finance. Acting in accordance with Sections 72 and 86 of the Customs Ordinance in accordance with those recommendations.  Issuing specific departmental orders containing clear instructions to the bond officers regarding the relevant procedure. Develop a written methodology of delivery, Government agencies have taken steps such as agreeing to use foreign exchange in the procurement of goods for various projects, treating only the CIF value actually spent on the importation of those goods.	Taking appropriate action against violations of the Customs Ordinance, acceptance of local invoices, encouragement of importers to make improper profits, misleading a government agency into carrying out customs investigations and causing losses.



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| (ii)  | The tax payable on receipt of goods to the warehouse was Rs. 263,301,203 but the tax calculation on release of goods from the warehouse is Rs. 325,800,859 as the government of Sri Lanka had to pay an additional tax of Rs. 62,499,656.  | -Do- | -Do- |
| (iii) | The conclusion of the investigation was questioned during the audit considering that the relevant institution had not committed any offense by the Sri Lanka Customs which had carried out investigations in this regard despite obtaining foreign and local currency by preparing fake invoices and submitting false information. | -Do- | -Do- |

**(b) Performance related to Customs Investigations**

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| (i) | 25,674 Customs inspections were registered by various divisions of the Sri Lanka Customs during the period from 01 January 2015 to 30 September 2020 and 26 percent or 6716 of these investigations had not been completed by the audited date of 22 September 2020. Out of which 1090 investigations are more than 05 years, 928 investigations are between 04 and 05 years, 942 investigations are between 03 to 04 years, 900 investigations are more than 02 years and 1285 investigations are more than 01 year were only registered and didn't begin investigations. The number of inquiries initiated and registered during the year 2020 was 1571. | I would like to inform you that I do not agree with the content of these paragraphs and have been prepared by the Central Investigation Division in connection with that audit query and answers are given by the report of My No. ESD/GE/03/02/2021 dated 20.04.2021. | Reviewing delays in initiating customs investigations and securing government revenue by requiring investigations. The discrepancy between the customs investigation data does not correct the basic error and the investigation should be completed and appropriate action taken to ensure that the investigation is not completed too long time. |
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(ii) No further action had been taken as on audited date of 22 September 2020, for 1285 investigations which had been reported to the Central Investigation Division for updating the Customs Central investigation Registration System by various sections of the Customs. From these, 70 percent or 903 investigations got 03 to 05 years. Although 17672 investigations were competed, 9573 or 54 percent of them were completed without any action being taken.

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-Do-

#### 4. Human Resource Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>The department had spent Rs. 1925 million on the payroll category for the year under review. Accordingly, the per capita expenditure is Rs. 0.8 million. The department had not filled 685 vacancies by the end of the year under review.</p>	<p>No comments.</p>	<p>(i) Recruitment for essential posts with due approval.            (ii) Abolition of unnecessary posts in consultation with the Treasury. Controlling the overtime payments made to the officers by the Sri Lanka Customs at present and providing opportunities for the unemployed citizens.            (iii)</p>