

## **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 2021 comprising the statement of financial position as at 31 December 2021, 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 Sri Lanka Customs in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officers on 06 June 2022. Annual Detailed Management Audit Report related to the Department in terms of Section 11 (2) of the Audit Act was issued on 27 July 2022. 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, 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 2021, 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 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 the Chief Accounting Officer and the Accounting Officer on Financial Statements**

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the 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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the

National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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

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

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

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

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

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

- (a) The financial statements were consistent with those of the previous year.
- (b) The recommendations made by me on the financial statements related to the previous year had been implemented.

## 1.6 Comment on Financial Statements

### 1.6.1 Receipts of Deposits and Payments

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Differences totaling to Rs. 15,389,963 had been observed between the balances mentioned in the statement of financial position as at 01 January 2021 and the opening balances of the ACA 4 statement in relation to three deposit accounts.	According to the instructions given in the 2021/02 guidelines issued by the Department of State Accounts for the preparation of financial statements for the year 2021, the accounts had to be prepared on the basis of the balance as per the Treasury printouts. Accordingly, the data has been entered in the ACA 4 format. Balances as per departmental books have been indicated in the statements of financial position prepared for each deposit account.  Thereby, according to departmental books and the treasury printouts, there have been differences in the balances for many years and the errors of the difference up to the year 2019 have been rectified by adjusting and action is being taken to find the errors that had existed before the year 2018 and to adjust such errors in the future.	Accounting should be done in such a way that the differences in the balances are recognized and the financial position of the institution is reported accurately and transparently.
(b) The difference in the opening balances related to the above deposit accounts remained unsettled as at 31 December 2021 and reconciliation statement containing the reasons related to the difference had not been submitted to the audit.	A report reconciling the differences has been presented with each deposit account.	The reconciliation statements including the reasons for the difference in the balances of the deposit accounts should be submitted and the difference in the balances should be identified and the accounting should be done accurately in the future.

### 1.6.2 Lack of Audit Evidence

Audit evidence had not been submitted in relation to the following transactions.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) A total of Rs. 2,926,071,598 comprised	The attendance of the employees in the of Customs Department is recorded using	(i) The general orders of the Government

Rs.1,839,078,959 from the Consolidated Fund of the Government and Rs.1,086,992,639 from the Customs Overtime, Cargo Examination fee and Information Technology Communication Fund had been paid as salaries, wages, overtime, holiday pay and incentives for 2342 officers of the Sri Lanka Customs in the year 2021 and the fingerprint records, which had been the evidence substantiating the said expenditure, had not been submitted to the audit.

the Form General 18 and based on that the overtime is calculated. However, a Committee representing all the officers of the Customs Department has been formed on 14.02.2022 to make recommendations regarding the payment of overtime in the Customs Department. Once the recommendations of the above-mentioned Overtime Committee are received, arrangements will be made to prepare a formal methodology regarding the payment of overtime.

and the Directives of the Committee on Public Accounts should be strictly adhered to.

- (b) The following evidence regarding the vehicle and container yard (PUR/A/CUS/2021/11) of South Asia Logistics Terminal had not been submitted to audit.

(i) Evidence to verify whether South Asia Logistics Terminal had obtained insurance for the vehicle yard and the vehicles and containers parked there and evidence that all agreements renewed from time to time had been signed before a lawyer and registered at the Land Registry.

A copy of the insurance certificate obtained from Amana Takaful Insurance has been included in the file to verify this fact. This Lease Agreement had been entered in to between the two parties of Sri Lanka Customs and South Asia Logistics Terminal (Pvt) Ltd. Non-registration of the Agreement in the Land Registry does not affect its legality.

Necessary evidence should be submitted to make proper verifications.

(ii) Payment vouchers for 11 months and 08 months respectively in relation to the payments made from the accounts maintained at the Bank of Ceylon and the People's Bank in the

The vouchers related to the payments made from the accounts maintained at the People's Bank and the Bank of Ceylon have been filed and submitted to the audit in relation to the year 2021. Since the vouchers have been submitted without recording them, steps have been

Steps should be taken to submit payment vouchers to audit in due course as per the Financial Regulations.

- (ii) Arrangements should be made in accordance with the Provisions of the Establishments Code and the Financial Regulations with regard to financial irregularities.
- (iii) Regularization of the existing unsatisfactory internal controls related to employee management.

year 2021.

taken to provide vouchers after recording them from the year 2022.

## 2. Financial review

### 2.1 Revenue Management

#### 2.1.1 Revenue Receipts

The Director General of Customs had worked as a Revenue Accounting Officer in respect of 13 Revenue Codes. The following observations are made regarding those Revenue Codes.

#### (a) Basic Estimated Income and Revised Estimated Income

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
An under variation of Rs.306,497 million or in the range of 18 percent to 78 percent between the Basic Estimate and the Revised Estimate in relation to 10 income codes were observed and an over variation of Rs.10,019 million or in the range of 13 percent to 20 percent between the Basic Estimates and the Revised Estimates in relation to 03 income codes were observed.	Answers had not been provided.	Estimates should be prepared prudently.

#### (b) Revised Estimated Income and Actual Income

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
There had been an under variation in the range of 5 percent to 36 percent between the revised estimated income and the actual income in the year under review in relation to 10 income codes and there had been an over variation of 10 percent and 136 percent in relation to 02 income items.	Agreed.	Estimates should be prepared prudently.

#### (c) Revenue of the Previous Year and the Revenue of the Year Under Review

In comparing the income of the year under review with the income of the previous year, a decrease of Rs. 113,898 million was observed in relation to 07 income codes and it was in the range of 6.15 percent to 89.30 percent. Although the income of the above Heads had been decreased compared to the previous year due to the corona situation and import restrictions, the collection of income in some Heads had generally increased compared to the previous year. Accordingly, a growth of

Rs.67,626 million was observed in relation to 06 Income Codes compared to the previous year. It was in the range of 10.39 percent to 55.03 percent. The following observations are also made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i) The total revenue collected by the Sri Lanka Customs in the year under review had been Rs.522,419,305,884 and the revenue collected under the petroleum product tax symbol out of that was Rs.55,339,152,821. It was 10.59 percent out of the total revenue. It had shown an improvement of 4.20 compared to the previous year.	The figures applied by the audit in relation to the year under review and the previous year regarding the matters pointed out are accurate and the audit observations are correct.	Measures should be taken to further strengthen the existing internal control systems.
(ii) Sri Lanka Customs had collected a revenue of Rs.154,125,248,777 under the port and airport development tax revenue code in the year under review and the revenue collected in the previous year had been Rs.115,442,010,554. An improvement of Rs.38,683,238,223 or 33.51 percent was observed in the year under review when compared with the previous year.	-Do-	-Do-
(iii) Sri Lanka Customs had collected a revenue of Rs.6,233,595,884 under other revenue code during the year under review and the revenue collected under this revenue code during the previous year was Rs.4,726,948,232. Accordingly, the income collected under other income had increased by Rs. 1,506,647,652 or 31.87 compared to the previous year.	-Do-	-Do-
(iv) An amount of Rs. 73,320,213,280 or 14.03 percent of the total revenue of Sri Lanka Customs had been collected through import	-Do-	-Do-

cess tax and the revenue from taxes had been increased by Rs.26,025,088,439 or 55.03 percent in the year under review when compared to the previous year.

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| (v)  | 0.43 percent of the total income ie Rs.2,223,285,662 had been collected under export cess tax revenue codes. The revenue collected under this revenue code during the year 2020 was Rs.2,013,974,216. It was an increase of Rs.209,311,446 or 10.39 percent compared to the year under review. | -Do- | -Do- |
| (vi) | An amount of Rs. 4,091,286,910 had been collected as penalties and forfeited revenue during the year and that revenue had been an increase of Rs. 1,202,068,262 or 41.61 percent when compared to the previous year.   | -Do- | -Do- |

**(d) Arrears Tax Revenue**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i) Import tax arrears had represented Rs.22,798,815,861 or 37 percent out of the total outstanding tax value as at 31 December 2021. An amount of Rs. 22,796,724,648 out of that had been prevailed even prior to the year 2018.	I agree with the audit observations. Although the relevant Ministries / Departments in relation to these tax arrears have been informed from time to time to pay the relevant outstanding taxes, action has not yet been taken to settle the tax arrears. However, the relevant institutions are being informed further to pay these taxes. Furthermore, action is being taken to recover the tax arrears by appointing a Committee consisted of officials from the Departments of National Budget, Management Audit and Sri Lanka Customs as per the instructions given by the Management Audit Committee of the Ministry of Finance in relation to the recovery of tax arrears.	Necessary measures should be taken to collect the revenue receivable to the Government without delay.

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| (ii)  | An amount of Rs. 10,273,512,929 i.e. 17 percent of the outstanding tax revenue as at 31 December 2021 had represented by the port and airport development tax and a sum of Rs. 10,271,520,471 out of that has been the outstanding revenue even prior to the year 2018. The Department had not taken action to recover the revenue even by the end of the year under review.   | -Do-   | Action should be taken as per the instructions stipulated in F.R. 128 and the Public Finance Circular 01/2015.  |
| (iii) | A sum of Rs. 4,720,905,539 or 8 percent of the total arrears of tax revenue had represented by the special provisions motor vehicle tax value as at 31 December 2021. A sum of Rs.4,711,353,914 had been prevailed even prior to the year 2019. This had been due to the release of goods to Government Institutions on the basis of subsequent recovery with the approval of the Treasury.                                    | -Do-   | Adoption of a specific provision to recover the tax arrears and internal control systems on the release of goods on subsequent recovery should be strengthened. |
| (iv)  | Arrears tax revenue is being accumulated annually and the arrears tax amount, which had been Rs. 22,933,854,690 as at 01 January 2021 had increased to Rs. 60,884,927,433 i.e. by 165 percent as at 31 December 2021. It was observed that the excise tax and other excise taxes levied on the oil refinery had been in arrears due to the release of imports to the Ceylon Petroleum Corporation in the year 2018 and 2020 in | Agreed with the audit observations. The outstanding income, which was Rs.22,933,854,690 as at 01.01.2021 has increased up to Rs.60,884,927,433.08 as at 31.12.2021 due to the revisions made by the Publication Department based on the data as revealed later. According to the outstanding revenue report for the year 2021, the total outstanding revenue as at 01.01.2021 was Rs.63,458,697,177.91. Total outstanding revenue as at 31.12.2021 was Rs. 60,884,927,433.08. Accordingly, Rs. 2,573,769,744.83 has been collected as the arrears of | Action should be taken as per the instructions stipulated in the F.R. 128 and the Public Finance Circular 01/2015.  |



contradictory to the revenue in the year 2021. suspension of the release of imports to Government institutions on the basis of subsequent tax recovery with effect from 01 January 2016. The arrears of tax revenue had increased unfavourably from 9 percent to 165 percent compared to the year 2020.

## 2.2 Expenditure Management

The following audit observations are made.

### (a) Saving of Provision

Audit Observation	Comments of the Accounting Officer	Recommendation
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(i) A sum of Rs. 3,298,300,000 had been allocated for recurrent expenditure for the year under review and a sum of Rs. 590,570,111, which had been 18 percent of that had been saved without spending. Due to the utilization of Rs. 2,341,480,889, out of the net allocation of Rs. 2,929,347,474 for 15 recurrent objects, an allocation of Rs. 587,866,585 had been saved and it had been in the range of 05 percent to 100 percent of the net allocation.	Recurrent expenditure – Reasons for this have been presented in the financial statement.	Estimates should be prepared prudently.
(ii) A sum of Rs. 151,113,688 had been saved due to the utilization of a total of Rs. 43,986,312, out of the net provision of Rs.195,100,000, the total for 09 capital objects and it was in the range of 31 percent to 100 percent of the net allocation.	Reasons for this have been presented in the financial statement.	-Do-

## 2.3 Incurring Liabilities and Commitments

The audit observations related to the liabilities and commitments are mentioned below.

### (a) Reporting information on Liabilities and Commitments

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Although the information on commitments and liabilities (Note No. (III)) submitted by the Expenditure Head with the annual financial statements in terms of the State Accounts Circular No. 271/2019 dated 03 December 2019, which includes the guidelines for the preparation of financial statements for the year 2019, should be published by the statement of aforesaid commitments and liabilities (SA92) issued by the Treasury, the institution had not taken steps to submit the SA 92 statement with the financial statements for the year 2021.	It was not possible to obtain the related hard copy by the date of the presentation of the annual accounts after uploading the liabilities related to this Department due to a technical error prevailed in the CIGAS computer system during uploading the liabilities to the new CIGAS computer system although the liabilities for the year 2021 were included in the CIGAS programme. Therefore, it was not possible to include the SA 92 statement to the financial statements of the year 2021. The Audit Department was informed of that matter.	Action should be taken in terms of the State Accounts Circular No. 255/2017.

### (b) Incurring liabilities by exceeding Provision

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Sri Lanka Customs had incurred liabilities amounting to Rs. 19,642,855.33 by exceeding allocations in relation to 06 objects in the year 2021 in contrary to the Circular provisions and Financial Regulations such as F.R. 94 (1) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, State Accounts Circular No. 255/2017 dated 27 April 2017, 03 (e) of the State Accounts Circular No. 263/2017 dated 22 December 2017, 4 iii of the State Accounts Circular No. 266/2018 dated 19 October 2018 and 3:4 of the State Accounts Circular No. 267/2018 dated 21 November 2018.	When the approval of the General Treasury has not been granted for additional allocations after utilizing the allocations of the relevant year, the related expenses would have to be incurred as liabilities in the ensuing year.	Liabilities should not be incurred exceeding provision.

**(c) Other Commitments and Liabilities**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i) Although an allocation was made in the register of commitments and liabilities presented by the institution with the final accounts of the year 2021, the value of liabilities not indicated in the financial statements had been Rs. 78,575,047.94. The value of the liabilities indicated in the final accounts. but not indicated as liabilities in the register of commitments and liabilities submitted with the final accounts for the year 2021 had been Rs.65,787,871.	Liabilities presented after the preparation of the financial statements have not been included in the financial statements.  Although it has been stated that the value of the liabilities indicated in the final account, but not included in the register of liabilities was Rs. 65,987,108.00, the amount of Rs.170,695/- stated under the Object of 247-01-01-1003 and the amount of Rs. 28,542/- stated under the Object of 247-01-01-003-1403 have been included in the registers of liabilities. Since there is no enough time to check whether the other items are accurate, action will be taken to provide answers in the future.	Should be careful about the accuracy in the preparation of accounts.
(ii) It was not possible to substantiate the manner of settling the balances, amounting to Rs.404,793,750 indicated as commitments and liabilities in the financial statements as at 31 December 2020, during the year 2021 using registers.	Action will be taken to provide answers in the future after checking it.	-Do-
(iii) An amount of Rs.31,732,060, which should be paid to the relevant institution in relation to a case file initiated by the Department on behalf of a foreign institution, had not been indicated in the accounts as an commitment or liability.	The amount mentioned here should be corrected as Rs.31,732,060/- and the voucher related to that amount has not been included in the financial statements as it was submitted on 31.03.2022.	It should be emphasized to improve the internal control system as it is not the accurate methodology to wait until the vouchers are presented to identify the accountability.

**2.4 Non-compliance with Laws, Rules and Regulations**

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Instances of non-compliance with the provisions of Laws, Rules and Regulations observed during audit test checks are analyzed below.

Audit Observation	Comments of the Accounting Officer	Recommendation	
Reference to Laws, Rules and Regulations	Non-compliance		
(a) Article 18 (1) and Article 19 of Chapter 04 of the Constitution	It was observed in the audit that the Customs Ordinance of the Sri Lanka Customs has not been drafted in the Sinhala language despite the fact that the Official and State Language of Sri Lanka is the Sinhala Language.	After inquiring the Government Publication Bureau, it was informed that the Customs Ordinance was printed in English only. It was also informed that 99% of the Ordinances have so far been printed in English only. Furthermore, it is mentioned that an easy-to-use manual written in Sinhala is also being used in Sri Lanka Customs as a translation of the said Customs Ordinance.	Action should be taken in compliance with the provisions of the Constitution and that the Customs Ordinance, which is older than 150 years and only in English, should be issued in other languages.
(b) As per Section 105 (4) of the Customs Ordinance	A consignment of cardamom weighing 575.5 kg was forfeited on 05 April 2021 and one kg was valued at Rs. 10,000 and even though perishable or damaged goods could have been sold immediately after a public notice, the Government had to incur a loss by not taking proper action within a month.	The consignment of cardamom weighing 575.5 kg has been forfeited on 09 April 2021 as per Gazette Extraordinary No. 21/89/4 dated 17.08.2020. Phytosanitary approval had been received for this. However, the certificate of the Country of Origin was not received.	Action should be taken in terms of the Customs Ordinance.
(c) (a), (b) of the Gazette Extraordinary No. 2117/48 dated 04 April 2019 of the Democratic Socialist Republic of Sri Lanka	According to the Gazette and Departmental Order No. DOPL 1321, all motor vehicles cleared from Sri Lanka Customs under the proposed tax	The release of the bank guarantee in question has been done after obtaining the approval by reporting the facts by the Director of Customs (Publication) to the Additional Director	As the audit is not satisfied about the clearing of this vehicle and the answer is not relevant, this should be re-examined.

concession should be registered in the personal name within 30 days from the date of the release. At the time of clearing such unregistered motor vehicles, the applicable excise duty must be paid. However, the government had lost a tax amount of Rs. 8,112,446 due to the release of the bank guarantee for the Nissan Used XI Trail vehicle related to the CUSDEC No. 21/215 dated 02 September 2019 despite the rejection of the registration of this vehicle by the Department of Motor Traffic.

General of Customs according to the normal bank guarantee release method. The Auditor General has been informed about this dated 26.09.2020. Although Colombo Fraud Investigation Unit has fixed the date of giving the Order to 18.03.2022 for the case related to the investigation bearing number IR/06/04/20, the OIC of Colombo Fraud Investigation Unit and Customs Superintendent (Legal Section) were inquired as a copy of the Order has not been received by Division D. However, a reply in this regard has not yet been received to the D Division.

(d) Establishments  
Code of the  
Democratic  
Socialist Republic  
of Sri Lanka

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(i) Paragraph 04 of Chapter XXIV

Action had not been taken to recover the debt balances of the retired officers amounting to Rs.891,902, outstanding for less than 01 year and Rs.520,462 outstanding for more than 05 years.

The balance of Rs.741,599.00, out of the loan balance of Rs. 1,633,501.00, which had been outstanding for less than 1 year, has already been settled. The loan balance outstanding further was Rs. 891,902.00 and arrangements are being made to settle that loan balance as well. When the Human Resource Management Division was inquired in relation

Measures should be taken in accordance with the Establishments Code.

to the recovery of the loan balance of Rs. 520,462.00, which has been outstanding for more than 05 years, they have notified that they had informed the Department of Pensions by the letter dated 06.04.2022.

Action had not been taken to recover the loan balances of the interdicted officers and there had been loan balances amounting to Rs.68,800, outstanding between 03 to 04 years and Rs.106,220 outstanding between 04 to 05 years and Rs.1,411,666 outstanding for more than 05 years.

The preliminary investigations have been completed regarding the loan balance of Rs.68,800 outstanding between 03 to 04 years and the report has been sent to the Public Service Commission on 23.11.2017.

The Director of Staff Services has been informed on 22.12.2021 about taking disciplinary action regarding the loan balance of Rs.106,220.00, outstanding between 04 to 05 years.

The Director of Staff Services has been informed on 22.12.2021 about taking disciplinary action regarding the loan balance of Rs. 1,411,666.00, outstanding for more than 05 years.

Action should be taken in accordance with the Establishments Code to recover outstanding loan balances.

(ii)Chapter  
XXVIII

The register of attendance had not been maintained in accordance with Chapter XXVIII of the Establishments Code to properly record the arrival and departure of officers attached to the Customs Office

Answers had not been provided.

Measures should be taken in terms of the Provisions.

- established at the Central Mail Exchange.
- (e) F.R. 133 (2) (Viii) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Although the Internal Audit Division should conduct special investigations whenever necessary, only one special investigation had been conducted for the two years of 2019/2020 and special investigations had not been conducted in the year 2021. It was not possible to conduct special investigations in the year 2021 due to the unfavourable condition prevailed in the country and only the planned audit programmes were conducted. The Internal Audit Division will be conducting special investigations from the year 2022. Measures should be taken in terms of the Financial Regulations.
- (f) Ministry of Public Administration and Home Affairs Circular No. 09/2009 dated 16 April 2009. Although all the officers of the Government Institutions are required to use the fingerprint machine to record arrivals and departures, any officer in the Sri Lanka Customs had not done so. Matters were submitted to the Secretary of the Ministry of Public Administration regarding the difficulties in implementing the provisions of Public Administration Circular No. 9/2009 due to the unique duty conditions of the Sri Lanka Customs Department. The Director General of Establishments has asked for further information to consider in that regard. Accordingly, efforts are being made to obtain relevant information from all Divisions of the Sri Lanka Customs, and after receiving the information, such information will be forwarded to the Ministry of Public Administration. Then further action will be taken according to the instructions given from the Ministry of Public Administration. Measures should be taken in terms of the Circulars of the Ministry of Public Administration and Home Affairs.

Moreover, instructions have been given by the letter of the Director General of Customs bearing No. AB/6A/FP/2020 and dated 14.03.2022, to take the necessary measures to record the attendance of the officers using fingerprint machines covering 08 Divisions of the Sri Lanka Customs Headquarters as the first phase. However, due to the current fuel and transportation crisis in the country, practical difficulties have arisen regarding the implementation of that.

- (g) F.R. 371 (2) as revised by the Public Finance Circular No. 03/2015 bearing No. PFD/RED/01/04/2015/01 dated 14 July 2015. Even though Adhoc Sub Imprest should be given to the officer on the closest day for the specific tasks and the Imprest should be settled as soon as the officer completes the work, a period of 30 days to 217 days had spent for settling the advance amounting to Rs.1,447,300 provided to 15 officers of the Department. An adhoc sub imprest amounting to Rs.600,000/- had been given to celebrate the International Customs Day on 26.01.2021 after obtaining the approval of the Director General of Treasury Operations in terms of F.R. 371 (2) revised by the Public Finance Circular 03/2015. Action should be taken in terms of the Public Finance Circulars and the Financial Regulations.
- (h) F.R. 485 (4) and paragraphs 1:1:6 and 1:1:7 of Budget Circular No. 118 dated 01 October 2004. Even though it should have been guaranteed that there had been no unsettled loan balances between the Departments after the lapse of 03 months subsequent to a transfer of an officer, there had been unsettled loan balances amounting to Rs.405,307.00, outstanding for more than 05 years, it has been informed that files in relation to these According to the inquiry made from the Human Resource Management Division on 11.03.2022 regarding the loan balance amounting to Rs.405,307.00, Action should be taken in terms of the Budget Circulars and the Financial Regulations.



- Rs.405,307, which had been outstanding for more than 05 years. officers could not be found and that the Division is carrying out further examinations.
- (i) Chapter 8 of the Government Procurement Guidelines  
 Although it had been decided by the letter of the Additional Director General of Customs unnumbered dated 8 May 2015 to pay the fees based on the number of days in releasing SALT vehicles and vehicles in the container yard, the payments had been made without entering into a formal Agreement in terms of Section 8.9.1 of the Procurement Guidelines.  
 Only the monthly rent is paid by the Service Delivery Division and any payment has not been made outside the Procurement Process. Sri Lanka Customs has entered in to a Contract with South Asia Logistics Terminal (Pvt) Ltd with effect from 05.01.2015 and as a result, the concurrence had not been granted to enter in to a separate Agreement. Containers have been parked in this land, which had been contracted. Therefore, there is no need to re-contract.  
 Entering in to Agreements formally.
- (j) Customs Departmental Order 375 (3)  
 Even though a Register of Movements should be maintained in relation to the movements of officers from the office premises in all Divisions and Sub-offices and a staff officer or officers in charge of the place should supervise the same, it had not been done accordingly.  
 Several Divisions including the Human Resource Development Division of the Sri Lanka Customs maintain a Register of Movements and action is being taken to make the officers aware of maintaining the Register of Movements as indicated.  
 Action should be taken in terms of the Orders of the Customs Department.

## 2.5 Irregular Transactions

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 The Audit observations in that regard are mentioned below.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Although the approval of the Minister of Finance	The reward system under the provisions of the Customs Ordinance has been in	Submitting the methodology to

should be obtained for the distribution of money as rewards from the Reward Fund and a suitable system should be prepared for the same according to Section 153 (2) (b) of the Customs Ordinance No. 17 of 1968, a sum of Rs. 21,046,904,408 had been paid as reward amounts within 23 years from the years 1999 to 2021 without confirming that the consent of the Minister of Finance had been obtained for the Departmental Order No. PL 118 dated 28 January 1988 issued by the Department for the distribution of Customs Rewards.

operation for a long time in the history of the Customs. Section 153 of the Customs Ordinance promulgated in 1956 specifies the mechanism of payment of rewards. Half of the penalties or receipts obtained that way shall be paid to the Deputy Secretary of the Treasury, and the other half shall be paid to the officers seizing the goods or to the informants, or to both such parties in such a manner as the collecting officer (Director General of Customs) may direct.

The incident of killing of Mr. W.D. Amarapala, the former Chief of Intelligence of the Customs Department made it necessary for the then Honourable Minister of Finance to make an amendment to Section 153 of the Customs Ordinance to enable paying compensations to those officers. Accordingly, Regulations will be prepared under Section 153A 2 for the establishment of the Management and Compensation Fund of Customs Officers. (P. Weerasekhara and T. Kananathaligam, Customs Law of Sri Lanka Vol. 1 pp. 363 and 364) One of the two authors of the book, the Director General of Customs had issued the Department Order No. 118 of 1988, and has been published the scheme of payment of rewards as provided in Section 153.

Even though this scheme should have definitely been approved by the Honourable Finance Minister, that approval cannot be found now. As the Regulations have been promulgated under Section 153 A 2, there cannot be any reason to disapprove the mode of payment specified in Departmental Orders (DOPL) 118 in the same year.

As per the Judgement of the case of Gunathilake v. Weerasena, the Court of Appeal held that Departmental Order (DOPL) 118 was a valid and operative and enforceable document.

the audit indicating the approval of the Minister.

## 2.6 Issuance and Settlement of Advances

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The audit observations in this regard are mentioend below.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) An excess amount of Rs.524,095, more than the required amount, had been given as advances to 20 officers due to not estimating the expected cost more accurately and it was in the range of 16 percent to 100 percent as the percentage of the advance amount given.	Explanations have been called from 20 officers and reminders have also been sent. All officers have been informed to correct such incidents in the future. A saving up to 100% of the advance amount occurred when an advance was obtained for the purchase of the necessary equipment for the repair of the computers as it was expected to carry out the repairs with the contribution of the Sri Lanka Army. the relevant military personnel could not come to the Sri Lanka Customs for carrying out the repair work due to the CoviD pandemic situation and the advance was not spent and 100% of the advance was resettled.	Action should be taken to accurately estimate the expected expenditure.

## 2.7 Operating Bank Accounts

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Deficiencies revealed during the audit test checks carried out in relation to the operation of bank accounts are mentioned below.

### (a) People's Bank Account No. 001-1-001-2-9026644

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(i) It was observed that there had been cheques totaling to Rs. 184,992.88 and not been presented for payments and had exceeded their validity period of 06 months according to the bank reconciliation statement prepared as at 31 December 2021. Action had not been taken in relation to these cheques in terms of F.R. 396. There had been an unrealized deposit balance totaling to Rs.75,507.70 as at 31 December 2021 without taking action in terms of F.R. 189 and F.R. 486.	I agree with the observations. Out of those cheques, only a cheque valued at Rs. 100,000.00 remained as at 30.04.2022. Action is being taken in terms of F.R. 396 in that regard. The value of unrealized deposits should be corrected as Rs.4,799,344.70. Out of that value, the value of the cheques remained as at 30.04.2022 was Rs.5,507.70.	Action should be taken in terms of the Financial Regulations.
(ii) It had been stated in the bank reconciliation statement that	I agree with the observations. The value of unidentified receipts as	The relevant balances should be

unrecognized receipt balances at 31.12.2021 should be corrected as identified and and unrecognized payment Rs. 8,904,234.65. Action is being submitted to the balances as at 31 December taken in terms of F.R. 189 and F.R. audit. 2021 had been 486 on 30.04.2022 in that regard. Rs.8,905,234.65 and Unidentified payments as at Rs.153,245.37 respectively. 31.12.2021 was Rs.153,245.37. Evidence to substantiate Arrangements have been made to whether those balances had settle an amount of 112,408.60, out of been identified and accounted that, in May 2022. The remaining had not been submitted to payments will also be identified and audit. settled.

**(b) Bank of Ceylon Account No. 0007041606**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i) It was observed that there had been cheques amounting to Rs. 562,704.29 that had not been presented for payments and exceeded their validity period of 06 months according to the bank reconciliation statement prepared as at 31 December 2021. Action had not been taken in relation to these cheques, which had not been presented for payments in terms of F.R. 396.	Action has been taken to credit an amount of Rs.89,901.10 on 01.02.2022 and Rs. 111,364.96 on 23.02.2022 to the General Deposit Account. Action is being taken in terms of F.R. 396 pertaining to the remaining cheques.	Action should be taken in terms of the Financial Regulations.
(ii) It was also observed that there had been unrealized deposits amounting to Rs.121,963.30 as at 31 December 2021 in relation to the years 2018, 2019 and 2020. Action had not been taken in this relation in terms of F.R. 189 and F.R. 486.	I have noted down to take action in terms of F.R. 189 and F.R. 486.	-Do-
(iii) A total of Rs. 1,237,439.12 and a total of Rs. 6,961.20 had been indicated in the bank reconciliation statement as unidentified receipt balances and unidentified payment balances respectively as at 31 December 2021. Evidence to substantiate whether those balances had been identified and accounted had not been submitted to audit.	Arrangements will be made to identify these unidentified receipts and payments and to take action in that regard.	The relevant balances should be identified and submitted to the audit.

### 3. Operational review

#### 3.1 Losses and Damages

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
<p>(a) It was observed in the investigation, conducted in relation to storing of 05 containers, containing 105,570 kilograms of imported palm oil unfit for human consumption, which had been recommended for destruction by an investigation conducted by the Central Disposal Division of Sri Lanka Customs, by declaring that the containers had been destroyed using false documents and issuing a part thereof to the market, that the officers of Central Disposal Division had functioned extraneous to the main purpose of establishing the Division. It was also observed that the Division, that carried out the investigation, has also been allowed to destroy or sell the goods under the custody of the same Division. Moreover, the said Division had submitted information stating that information could not be found about the importer and the final report related to the investigation had not been forwarded to the Director of Customs of the Central Disposal Division. The Superintendent of Customs and the Deputy Director of Customs of the relevant Division had taken the final decision of this investigation.</p>	<p>The Central Disposal Division has stopped conducting customs investigations in compliance with the audit observation. Accordingly, selling / destroying of forfeited goods or goods abandoned by importers, the main purpose of establishing this Division, are being carried out by this Division at present. Similarly, even though the final report of the relevant investigation file should have been notified to the Director of Customs as per the reply letter sent in relation to this audit query on 2021.08.02, it had not been done accordingly and I agree with the audit in that regard. The customs investigation file related to the incident in question has been submitted to the Central Investigation Division for further investigation.</p>	<p>Action should be taken in compliance with the Customs Ordinance and the Regulations of the Departmental Circulars.</p>
<p>(b) The NC Committee of Sri Lanka Customs had taken action to release a luxury vehicle, in the model of Toyota Land Cruiser imported by installing public calling equipment worth nearly Rs. 9 million, under the special purpose vehicle category after collecting only a tax amounting to Rs. 1.5 million. If this type of vehicle was cleared under the category of passenger transport, a tax of nearly Rs.</p>	<p>Referred to NC Committee (Nomenclature &amp; Classification Committee) of Sri Lanka Customs. The Committee has concluded that the correct HS Code for the said vehicle is 87059091. Based on that decision, this vehicle has been released to the importer. Therefore, there has been no loss</p>	<p>Even though it has been pointed out that HS Code has been used incorrectly in the collection of the due revenue to be charged and levying taxes of the Customs since the year 2011, action is being taken</p>

- 56 million should have been levied. As a result, the Government had lost a tax revenue of Rs. 54,642,528.
- of tax revenue as duty has been paid as per the decision of the NC Committee.
- without complying to it. Therefore, a formal uniform decision should be made to secure the revenue of the Government.
- The causes of the loss should be revealed and appropriate measures should be taken.
- Do-
- (c) It was observed that Sri Lanka Customs had incurred a loss of Rs.2,380,093,392 (US\$ 7,656,979) as the Rapiscan system had not been purchased outright in the year 2016 and the system had been purchased outright in the year 2021.
- Answers had not been provided.
- (d) The yard belonging to SALT, where the vehicles and containers are held until the customs investigations are completed and released, has been used on lease basis from 20 April 2015. Accordingly, it was observed that this yard had been for the mere use of Sri Lanka Customs. Although the rental fee for the containers of the Laksiri Service Company kept at the SALT yard should have been received by the Sri Lanka Customs, SALT had collected these fees and as a result, Sri Lanka Custom had lost an amount of Rs. 1,112,500.
- Answers had not been provided.
- (e) As per the judgement of a case, referred by the institution on behalf of a foreign institution, the foreign institution had been ordered to pay an amount of Rs.101,183,021. Furthermore, the compensation of Rs. 37,529,750 paid had been indicated as a financial loss and this amount had been paid using estimated provision without taking steps to pay the compensation from the Management and Compensation Fund.
- The Director General of the Department of Trade and Investment Policy had informed by the letter dated 06.01.2022 (Annexure 02) that the approval of the Secretary of the General Treasury has been granted for the payment of the amount of Rs.372,950/-, which was the compensation to be paid to M/s Fairmacs Shipstores Private Limited according to the decision given for the case bearing No. 37814/MR at Colombo District Court, using annual budget allocation of the Sri Lanka Customs. Accordingly, the compensation was paid from the annual budget allocation of Sri Lanka Customs.
- Arrangements should be made to minimize the allocation of provision exceeding the requirements in the preparation of the annual budget.

### 3.2 Management weaknesses

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 The following observations are made.

- (a) The General Treasury of the Government of Sri Lanka had assigned the task of bringing DI pipes and accessories required for the project to the National Water Supply and Drainage Board based on the assistance provided by the Japanese Government for the Eastern Province Water Development Project. The Water Supply and Drainage Board had awarded the contract to a Private Firm to procure the required DI pipes and accessories for the same. The amount of USD 6,659,685 to be incurred for that would be borne by the assistance received from JICA and the transportation costs and taxes will be borne by the Government of Sri Lanka. The following facts were revealed in this regard.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(i) According to Section 72 of the Customs Ordinance, Sri Lanka Customs had given the opportunity to a private company to warehouse goods without paying tax in the first instance and for that purpose 08 Customs Declarations (Cusdec) had been issued. Accordingly, goods worth USD 5,139,621 had been warehoused (To Bond). According to Section 86 of the Customs Ordinance, the invoice value of the goods declared earlier should be declared at the time of releasing the goods from the warehouses. However, using locally prepared invoices, import declarations had been submitted with false information by stating the relevant value as USD 6,350,364. Thereby, the relevant</p>	<p>A preliminary investigation is being conducted. Forward action will be taken based on the recommendations of the preliminary investigation.</p>	<p>Action should be taken as per the Customs Ordinance and proper measures should be taken to recover the excess amounts received and against the preparation of false documents.</p>

institution had the occasion of over receiving a value of USD 1,210,743.

- |   |                                       |   |
|---|---------------------------------------|---|
| <p>(ii) Although the amount of tax that should have been paid at the time of accepting the goods into the warehouse had been Rs.263,301,203, the amount of tax at the time of releasing the goods from the warehouse had been indicated as Rs.325,800,859. As a result, the Government of Sri Lanka had to overpay an additional tax amounting to Rs.62,499,656.</p>  | <p>Answers had not been provided.</p> | <p>Action should be taken as per the Customs Ordinance and appropriate steps should be taken to recover the loss incurred by the Government.</p>                        |
| <p>(iii) The Sri Lanka Customs, which had conducted the investigations regarding receiving foreign as well as local currency by preparing fake invoices and submitting fake information, had concluded the investigation considering that the relevant institution had not committed any offense. Not taking action in relation to the officers, who had given the investigation decision incorrectly was problematic to the audit.</p> | <p>Answers had not been provided.</p> | <p>Action should be taken as per the Customs Ordinance and formal action should be taken against the parties, who had given the investigation decision incorrectly.</p> |

**(b) Sale of Forfeited Goods**

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though Sri Lanka Ayurveda Pharmaceuticals Corporation had agreed to	The stock of cardamom weighing 575.5 kg had been forfeited on 09 April 2021 as per the Gazette	Action should be taken to avoid the violation of



receive a stock of cardamom, which had been estimated at Rs. 10,000 per one kilogram, at Rs. 1,000 per one kilogram each, thereafter they had refused to receive it. Therefore, efforts were made to sell the stock of cardamom with weevils to Lanka Sathosa Limited without using any other sales method and without disposing of the stock of cardamom with weevils and it was observed that it had been a violation of consumer rights.

Extraordinary No. 21/89/4 dated 17.08.2020. Phytosanitary approval had been received for this. However, the Country of Origin certificate had not been received. According to the decisions taken by the Cabinet of Ministers of the Republic of Sri Lanka, approval had been granted to provide perishable materials and materials suitable for consumption only to the Cooperative Wholesale Establishment without calling for tenders by the Government institutions. Accordingly, it is not possible to take action as per Section 105 (4) of the Customs Ordinance.

**(c) Vault of the Customs Office in the Central Mail Exchange**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(i) Action had not been taken to identify old parcels, out of the 181 vault items unreleased from the year 2011 to 01 December 2021, the date of audit, as per the vault register and to dispose of, sell or taking necessary forward steps in relation to the identified old parcels.</p>	<p>Former Superintendent of Customs of the Postal Valuation Division had certified that all the goods in the customs vault according to the SR Register had been loaded into 71 bags and transferred to the RTF warehouse of the Service Delivery Division on 27.03.2019 and it had been confirmed by the Public Management Service Officer in charge of the Service Delivery Division. A letter confirming that had been attached to the SR Register. Instructions have been given to destroy or sell the remaining old parcels.</p>	<p>Identifications related to old goods should be done and necessary measures should be expeditiously taken in the future.</p>
<p>(ii) The Vault Register (SP Register) had not been maintained to include detailed information in compliance with a systematic format.</p>	<p>The SR Register, which was started in 2011, has been continuously maintained, and a General 21 notebook has been maintained as an SR Register from January 2022. (with formal details)</p>	<p>A formal vault register should be maintained as per the instructions stipulated in the Financial Regulations and in the Internal Circulars.</p>
<p>(iii) It had not been possible to conduct a physical</p>	<p>As the vault has limited space. access to the vault and to the other parcels has</p>	<p>Steps should be taken to store vault items in</p>

verification of goods as the goods had been stored in such a way that the goods in the vault could not be identified due to not maintaining the informally maintained Vault Register (SR Register) properly.

- (iv) Nineteen (19) vault items, which had exceeded 02 years, out of 97 items in the vault as per the vault register prepared on 19 July 2021 in relation to the transfer of custody by including the items seized from the year 2018 to the items in the vault, had been retained without taking further action in that regard.
- become difficult. The activities related to disposal are being carried out through the Central Disposl Division. Instructions have been given to pack the goods in the future according to the relevant types of goods and dates in a way that it is easy to identify the goods.
- an identifiable manner as per the Financial Regulations.
- Instructions were given to identify the disposable items and to dispose of them properly.
- Old goods should be identified and necessary measures should be taken expeditiously.

**(d) Central Mail Exchange Customs Office**

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(i) It was observed that the goods received from abroad through the Central Mail Exchange had been received in bags. Even though scanning machines had been used to identify the types of goods or items included in those bags, it had not been possible to clearly identify suspicious or illegal goods. It was observed that conclusions were made about the goods that had been retained based on the experience and personal discretion of the officers.	Officers of the Post offices only got a description of the parcels containing the goods while forwarding the goods received from abroad to the Central Mail Exchange. The details of the contents of these bags have been obtained according to the information contained in the document included in the bag after opening each bag. The officers of the Post offices did not obtain a detailed report containing information about the types of goods or items. Postal officers as well received only a description of the parcel containing letters and parcels and they have not received information about the letters and parcels contained therein. The details of these parcels have not yet been given to the Customs Officers. Hereinafter, the Postal Department has been informed to provide a description of those parcels to the Customs.	An appropriate procedure should be adopted for this activity by holding expeditious discussions with the Postal Department.

After opening the respective bags, a report containing information about the number of letters and parcels contained in each bag, their weight, and collar numbers has been found in each bag, which has not yet been given to the Customs Officers. The Postal Department has been informed to make the Customs aware about this in future.

Therefore, a conclusion has been made about the retention of suspicious items during the inspection carried out using the scan machine based on the experience and personal discretion of the officers.

- (ii) Adequate internal control had not been implemented under the supervision of a responsible officer with proper security for receipt books with Form 119 for collection of customs duties imposed on postal parcels received from abroad. Form 119 books were in the custody of Customs Inspectors. These books are obtained from the Headquarters and a requisition letter signed by an executive grade officer has been sent to obtain Form 119 books. Books are counted and received and entered in a register. When sending the books to Galle, Kandy, Trincomalee, Jaffna sub-post offices and issuing them to the counters, they have been entered in a register. They have been handed over and taken over after signing. Instructions were given to do it under the supervision of a higher officer in the future. Measures should be taken to implement an adequate internal control over receipt books.

(e) **Purchase of Container Scanning System for Sri Lanka Customs**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(i) An amount of USD 1,500,000 had been included in the outright purchase cost in purchasing the scanning system in the year 2021 for the amount of USD 3,036,000, the scanning fees that should have been paid from May 2020 to January 2021, for the scanning system purchased under the BOO system in the year 2016. The decision to purchase scan machines by finalizing the payment of USD 21,590,008 in 180 days without considering the foreign exchange crisis, was</p>	<p>The approval of the Cabinet of Ministers dated 06 July 2021 had been received for the Cabinet Memorandum of the Minister of Finance bearing No. 21/1147/304/098 dated 23.06.2021 with the Heading of “Approval for full purchase of container scanning system installed by Rapid Scan Systems Ltd. for Customs purposes”. Accordingly, the approval has been received to fully purchase the container scanning system</p>	<p>Action should be taken carefully in conducting transactions during a foreign exchange crisis.</p>

- problematic to the audit.
- installed by Rapid Scan Systems Ltd. for customs purposes and to pay an amount of USD 1,500,000 as container scanning fees from May 2020 to January 2021. The payments have been made in 03 installments as mentioned below.  
 first installment on 19.07.2021  
 Second installment on 17.09.2021  
 Third installment on 22.12.2021
- (ii) The average number of containers scanned daily from January 2021 to September 2021 was 238 and accordingly, USD 8620 had to be incurred idly for 862 containers (1100 - 238) per day. Accordingly, USD 2,353,260 had to be over paid for the period.
- It has been agreed to scan 1,100 containers per day and to pay USD 10 per one container and to pay USD 5 per one container scanned in addition to that according to the tripartite agreement entered in to among the Ministry of Finance, Sri Lanka Customs and Rapid Scan Systems Ltd. on 28 October 2016, However, I observe that a targeted quantity of containers have not been scanned due to the outbreak of Covid pandemic throughout the island since February 2020.
- The necessary measures should be taken to avoid incurring unnecessary expenses in order to minimize costs.
- (iii) Although the approval of the Cabinet of Ministers had been received, giving the opportunity for 5 customs officers to participate in an observation trip to a Government Factory in the United Kingdom to observe the operation of the machines under the sponsorship of Rapid Scan Systems Ltd. before signing the contracts cannot be ruled out at the audit that there had been a possibility of undue influence on the officials involved in the procurement process.
- I observe that the factory inspection tour has been stipulated in the tripartite agreement entered in to among the Ministry of Finance, Sri Lanka Customs and Rapid Scan Systems Ltd. on 28.10.2016. Accordingly, it was observed that 05 officers involved in the procurement process, including the Director General of Customs, have gone to the United Kingdom for a Factory Acceptance Test.
- Action should be taken to do transactions in a transparent manner.
- (iv) These scanning machines had been sent to the island from United Kingdom on 13 February
- Agreed.
- I observe that the Director General of the Sri Lanka
- Do-

2019, and the Sri Lanka Atomic Energy Authority had provided the certificate on 22 January 2019 to the effect that the machines were suitable for use, i.e. free of danger, even before the machines are carried to Sri Lanka and without conducting any inspection.

Atomic Energy Regulatory Council has participated as a member in the Factory Acceptance Test organized in the year 2018.

The Sri Lanka Atomic Energy Regulatory Council forwarded the said letter dated 22 January 2019. The following Conditions have also been included in the said letter in English.

1. You are hereby authorized to install the above 04 nos. of container scanning x-ray systems at Colombo Port only after adhering the radiation protection requirements given in the Council letter No AERC/03/D2/01 dated 01.02.2018.

2. After the machines are installed, the Council should be informed for licensing process along with the duly filled notification & application before the machines are used for scanning.

(v) It was observed that the way of positioning the Rapiscan container scanners had not been practical and economical to handle Prime Mover machines (Factory Layout) easily.

The Factory Outlet has been set up to handle the prime mover machines without any problem depending on the shape of the land provided by the Ports Authority to install the Rapiscan machine systems.

Expenditure should be incurred in prudent, practical and economically beneficial manner.

(vi) Since 100 percent of the container scanning had been expected by granting the approval of the Cabinet of Ministers, it had been more advantageous to purchase the scanning system. Nevertheless, it was contentious to the audit whether the decision to acquire the scanning system on the Build Own & Operate methodology at a high cost, without even implementing the recommendation given by the Bid Appeal Committee to evaluate the

Agreed.

-Do-

bidders again, had been taken solely on the requirement of Sri Lanka Customs.

- (vii) As the Cabinet of Ministers had given the approval to purchase the container scanners under the Boo system from the Rapiscan company itself due to clause 17.4 of the Agreement, which had been disadvantageous to the Government, the opportunity of conducting a feasibility study again on the use of scanners had been lost. The opportunity to purchase scanners under a minimum cost by conducting a technical evaluation after allowing the competition in the open market through a new procurement had also been lost and this purchase as an alternative method was a problematic matter to the audit.
- I observe that the Ministry of Finance has decided to purchase the container scanning system selected under the Build, Own and Operate (BOO) procurement method and installed in the year 2021. Purchases should be carried out in accordance with the Procurement Guidelines.
- (viii) Although a full X-ray scan had been expected for the Customs Clearance Process, it had not been implemented and as a result, it had not been possible to achieve the expected plans such as identifying the hidden items among the declared items, reducing the number of false declarations of goods and reducing the import of prohibited and illegal goods. The scanned containers out of the total containers cleared from November 2019 to 30 September 2021 had been 08 percent.
- Although the number of containers selected to be scanned online by using the Rapiscan system in the initial phase was low, it has gradually increased up to this level. I would like to mention that the containers referred to Rapiscan are those identified by the Risk Management Unit and all the containers referred in that manner have been scanned. Necessary steps should be taken to achieve the desired plans.

**(f) Audit Examination in relation to the Vehicles and Container Yard of SALT**

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) Sri Lanka Customs should have paid an amount of	Answers had not been provided.	Necessary steps should be taken to

	Rs.138,513,782 to SALT by 07 December 2021 for the 336 parked vehicles, of which investigations had not been completed and the amount to be paid could have been increased further depending on the progress of finalizing the vehicle investigations.		complete the relevant investigations formally and promptly.
(ii)	Fifty-one (51) vehicles, for which there had been no files or records owned by the Customs, had been parked in the vehicle park, covered with a roof and in the vehicle yard not covered with a roof .	Answers had not been provided.	Appropriate measures should be taken in this regard.
(iii)	Sri Lankan Customs had to pay Rs.895,500 each per month to SALT due to the fact that 134 severely decaying and dilapidated vehicles had been parked in the roofed section. There had been the possibility of saving this amount, which is paid monthly by adopting the process of disposing of these vehicles, which could not be used further.	Answers had not been provided.	-Do-
(iv)	Since the validity period of the Agreement, signed by both parties on 05 January 2016 for the land acquired by the South Asia Logistics Terminal Company (SALT) and Sri Lanka Customs for the vehicle yard on lease basis, had been 05 years from 19 January 2015 to 18 January 2020, the Agreement had been signed by backdating for a one year.	The Lease Agreement had been signed on 05.01.2016 making it valid from 19.01.2015 to 18.01.2020. However, that yard had been taken over for use by the Customs on 13.05.2016. The monthly rental has been paid with effect from that date.	Steps should be taken to enter into Agreements in accordance with the relevant Laws, Rules and Regulations.
(v)	Although South Asia Logistics Terminal Company had signed a contract on 19 January 2015 to provide the Plot of Land in extent of 01 Rood and 16.46 perches as depicted in the Plan No. 2819 to Sri Lanka Customs on lease basis for 05 years, there	Although the Plot of land in extent of 01 Rood and 16.46 Perches depicted in the Plan No. 2819 had been acquired by South Asia Logistics Terminal (Pvt) Ltd from Unixpo Holdings (Pvt) Ltd. with effect from 20.02.2015, it was observed that all the qualifications	Transactions should be conducted in such a way that legal obligations are established.

- was no evidence to establish that South Asia Logistics Terminal Company had the legal title to the land at the time of execution of the lease as the leasehold had been acquired from Unixpo Holding (Pvt) Company for 03 years with effect from 20 February 2015.
- (vi) That had been only an Agreement entered in to between Sri Lanka Customs and South Asia Logistics Terminal for the parcels of land and since that Agreement had not been registered at the Land Registry, there had been no legality to the Lease Agreement.
- (vii) According to the Agreement, the Sheltered Warehouse had been handed over by South Asia Logistics Terminal on 13 May 2016 and it was supposed to have 20,000 square feet, however, the actual area was 18,030 square feet only. As a result, South Asia Logistics Terminals had not fulfilled the Conditions of the Agreement.
- (viii) Even though a yard should be selected to store vehicles and containers by adopting the procurement method again by the time of terminating the Agreement since the date of termination of the 5 years, the tenure of this Agreement, had been on 18 January 2020, the Customs had not taken any action in that regard and paid rentals by updating the old agreement, which had been entered in to with South Asia Logistics Terminal, in four times periodically.
- (ix) Even though South Asia Logistics Terminal should operate a CCTV camera system
- had been fulfilled by 05.01.2016, the date when the Agreement was signed.
- This Lease Agreement had been an Agreement entered in to between the two parties, Sri Lanka Customs and South Asia Logistics Terminal (Pvt) Ltd. The legality of the Agreement has not been affected by non-registration of the Agreement at the Land Registry.
- I agree.
- Although the monthly rental has been stipulated in the Lease Agreement as Rs. 995,000.00, Rs. 895,500.00 had been paid for this yard from the beginning only for 18030 square feet, the actual land area used.
- In the first instance i.e. from 19.01.2020 to 18.07.2020, it has been extended by 06 months. Then, it was not suitable to carry out a new procurement process due to the Covid-19 pandemic prevailed in the island, the Agreement has been extended from 19.07.2020 to 18.07.2021 and from 19.07.2021 to 18.10.2021 and from 19.10.2021 to 18.04.2022. However, a newspaper advertisement has already been published under the National Bidding and a new procurement process has been started.
- The officials, who perform duties there, would usually inform the relevant institution immediately
- Do-
- Legal action should be taken in relation to the breach of the Agreement.
- Measures should be taken in compliance with the Rules of the Procurement Guidelines Manual.
- Action should be taken to fulfil the matters stipulated



to cover the entire vehicle yard when there were problems in the in the Agreement acquired by the Customs on the C.C.T.V system or other problems without breaching lease basis as stipulated in the and take steps to correct the them. technical specifications deficiencies. submitted in calling for quotations by the Customs, 04 defects were found in the existing camera system at the vehicle yard at the time of the audit.

- (g) **Clean Power Lanka (Pvt) Ltd (Wire Cut EDM Machine EDM Drilling Machine)**  
Clean Power Lanka (Pvt) Ltd had imported 02 machines under Customs Declarations No. I 65721 on 30 April 2021 and the following facts were observed in finding out the facts on a public awareness made about a tax fraud that had occurred in connection with that.

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) When comparing the document of Assessment Note given by the relevant Wharf Clerk to the importer, who had submitted the public complaint, with the Customs Declaration obtained from the Customs for audit, it was observed that there was a difference between the time consumed for printing. A difference totaling to Rs. 197,452 was also observed among the taxes charged.	Answers had not been provided.	Adequate internal control system and follow-up should be carried out to avoid Wharf Clerks misleading the public.
(ii) It was reported that the signature of the customer and rubber stamp had been placed on all the documents and it had been reported that the customer had never used his signature and his rubber stamp had not been provided and the authority had not been entrusted to use his rubber stamp.	Answers had not been provided.	Adequate internal control system and follow-up should be carried out to avoid Wharf Clerks misleading the public.

- (h) **Breach of the Agreement of the Board of Investment (BOI)**

Audit Observation	Comments of the Accounting Officer	Recommendation
Dankotuwa Porcelain Ltd, an approved	Answers had not been	Since the Company, which

Institution of the Board of Investment of Sri Lanka, had entered in to a contract with the BOI since 1998, the company could no longer operate on the approval of the Board of Investment of Sri Lanka due to the breach of the Laws of the Contract and had applied for registration under the TIEP system of the Sri Lanka Customs in 2017. However, Sri Lanka Customs had started an investigation against Dankotuwa Porcelain Company based on the above problematic situation. However, the Sri Lanka Customs had levied a penalty considering that the Agreement had been entered in to with the Board of Investment only for the years 2012-2017 without considering the years 1998-2011 and without making any inquiry from the Board of Investment. The tax amount lost for the years 2012-2017 had been estimated as Rs.140,863,563 due to not evaluating the total number of years with the Board of Investment of Sri Lanka and Rs.1,749,365,082 had been decided as the penalty on that. The Government had incurred a further loss of Rs.104,863,563 due to reducing it to Rs.120,000,000 even without covering the basic tax amount.

provided.

had been subject to the investigation of the Customs, had been entered in to a contract with the Board of Investment of Sri Lanka during the relevant period, a full investigation should be carried out or steps should be taken to carry out an investigation by the Board of Investment of Sri Lanka after informing the relevant Company.

#### 4. Human Resource Management

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The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) The approved cadre of Sri Lanka Customs as at the last date of the year under review was 3075 and the actual number of employees was 2342. The following observations are made.  There were 733 vacancies as at the last date of the year under review.	I agree with your observations. Various steps are being taken to fill the vacancies.	Action should be taken to avoid any discrepancy between the approved staff and the actual staff or forecasting the staffing requirements again and making revisions in that regard.

- (b) Although the approved number of posts of the Deputy Superintendent of Customs had been 100, the actual number of posts was 112 and 12 persons had been recruited exceeding the approved cadre. Although 376 posts of Deputy Superintendent of Customs had been approved as per the scheme of recruitment for Field / Office Based Officer Segment 02 Service Category in force prior to 13.02.2020, the approved number of posts of Deputy Superintendent of Customs was 100 as per the revised scheme of recruitment for the posts of Deputy Superintendent of Customs approved (Service Category: Supra Grade Management Assistant.) with effect from 13.02.2020. Therefore, even though there had been an indication of an excess number of posts of Deputy Superintendent of Customs than the approved number of posts, it is a provisional situation. Action should be taken to avoid any discrepancy between the approved staff and the actual staff.