

Head - 296 Imports and Exports Control Department

1. Financial Statements

1.1 Opinion

Head - 296 The audit of the financial statements of the Imports and Exports Control Department for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, 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 Imports and Exports Control Department in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 25 May 2023. Annual Detailed Management Audit Report related to the Department in terms of Section 11 (2) of the Audit Act was issued on 25 May 2023. This Report is presented to the Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the Imports and Exports Control Department as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

The Accounting Officer is 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

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

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.

2. Financial review

2.1 Non-compliance with Laws, Rules and Regulations

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

Observation

Reference to Laws, Rules and Regulations	Amount	Non compliance	Comments of the Accounting Officer	Recommendation
	Rs.			
(a) Section 11 E of the Imports and Exports Control Act No. 01 of 1969 as amended by Act No. 28 of 20 June 1987.	-	Even though the importers, who do imports in contrary to the standard, should be published in the Gazette, the Department had not taken action accordingly.	The Draft Gazette has already been drafted by the Legal Draftsman's Department, and sent to this department in trilingual to blacklist importers and exporters who carry out imports and exports in violation of the regulations of the Import and Export Control Act No. 1 of 1969. A written reference has been made to the Director General of Trade and Investment Policy Department on 28.04.2023 to obtain instructions and observations related to further actions in this regard.	Adherence to the Import and Export Control Act No. 01 of 1969 should be required.

- (b) Ministry of Finance - Circular No. 5/2022 dated 04 April 2022
- Although, the Heads of Institutions have been mandated to prevent misappropriation and misappropriation of government property as well as to ensure that they are utilized to the maximum effect., contrary to that NISSAN SYLPHY type car with a cost of Rs.3,038,690 as per the request made by the Secretary to the President by letter No. PS/IAD/TR/E(1)/Ve h.Req-Oth.ins of 03 December 2022 had been handed over to the Secretary to the President on 05 December 2022. However, this car had not been recognized and accounted for as a formal transfer of assets between entities.
- This vehicle has been handed over as a temporary exchange. No transfer of assets has been made. The assets were recorded to be taken back or transferred in the future as required.
- Adherence to the provisions of the Circulars should be required.
- (c) National Budget 7,919,375 Circular No 03/2022 of 26 April 2022
- Although, it has been stated that government agencies should work hard to reduce the construction of buildings, to rent and all expenses, money for the renovation of the rented building during the year under review had been spent.
- This department, is run in a very limited space on the first floor of the Hemas Building located in York Street, Fort, Colombo and a large number of clients come here daily to get the service. Hence, there is not enough space, a portion of
- Adherence to the provisions of the Circulars should be required.

the ground floor of this building was acquired on lease basis.

3. Operational review

3.1 Vision and Mission

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
According to the Objective, Vision and Mission of establishing the Imports and Exports Control Department by Act No. 01 of 16 January 1969, the necessary activities should be carried out to control the imports and exports that adversely affect the economy of Sri Lanka. However, actions had been taken based only on the requests made by the institutions related to each subject. Furthermore, it was observed to the audit that no recognized scientific method or procedure had been prepared to fulfill the basic objectives of the department, and considering the collection of license fees as the main task, forecasts of the country's total consumption for the Quality Control had been ignored.	This department is to issue regulations in compliance with the policy decisions taken by the government from time to time in accordance with the Import and Export Control Act No 1 of 1969 and dealt with Department's objectives, vision and mission.	Efforts should be made to control harmful imports and exports as per the objectives, vision, and mission of the department under the Imports and Exports (Controls) Act No. 01 of 16 January 1969.

3.2 Delays in the Execution of Projects

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Imports and Exports Control Department had signed a Memorandum of Understanding with ICTA on 03 February 2017 to carry out activities such as connecting software systems with organizations approved for software development,	The computer system currently used by the department established in the year 2014. As the facility for online system was not included at the time of inception of that system, the work was started in the year 2016 to upgrade the departmental computer system to include online facility.	Action should be taken to finalize the project through actively intervening to accomplish the task on time as planned.

networking and submission of online applications; project was not completed as expected even during the year under review. However, for the issuance of the license and clearance work (debits) after import that the import was made in accordance with the license, an aggregated amount of Rs.9,686,450 as Rs.6,596,994 to purchase new computers and accessories from several institutions and Rs.3,089,456 for system software and repairs had been spent from the year 2012 to the year 2022 for 10 years, it had not yet been implemented at the expected level.

While performing those tasks, IT agency (ICTA) undertake the task of upgrading the computer system required by this department at their cost. However, due to the failure of the ICTA institution to complete the improvement of the computer system properly, the work had to be abandoned.

3.3 Management Weaknesses

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) (i) A ship carrying containers of fish that was traveling from Seychelles to Thailand suffered a technical fault in the sea area near the port of Colombo and due to the interruption of the power supply had reached to the Port Authority of Sri Lanka on 13 January 2022. Those fish containers were sold on 09 March 2022 for the production of organic fertilizers to a local private company which was found by the local agent of of the foreign ship. Although, the import license must be obtained before importing into the country as per the section 08 of the Import and Export (Control) Act, No 01 of 1969, the department had arranged to issue a license later or 30 May 2022, for the materials that reached the port of Sri Lanka only because of a technical fault.	Although, as per the provisions of the section 8 of the Import and Export (Control) Act No 1 of 1969, it is stated that the import license must be obtained before importing into the country, there is no obstacle to issue a license for the imported materials, which imported without obtaining a license after charging an extra fee.	Adherence to the provisions of the Import and Export (Control) Act No 1 of 1969 should be required in issuing licenses.

- (ii) Further, even though the importer has to make the request to obtain a license, contrary to that, the Deputy Director of Customs, Central Disposal Division of Sri Lanka Customs had requested for issuance of a license on 25 May 2022. Although, the local company producing organic fertilizers had submitted pre-dated fake commercial invoice on 10 December 2021, it had not come to the attention of the Controller General of Imports and Exports while issuing the license.
- For obtaining a license by the importer, Eco N Rich Organic Fertilizer has been made through the application introduced by the department on 26.05.2022. Accordingly, it may be noted that the license has not been issued considering only the request made on 25.05.2022 by the Deputy Director of Customs, Central Disposal Division, Sri Lanka Customs. Importers are also required to submit original copies of relevant documents during customs clearance. Therefore, after checking the duplicate copies with the said originals, it is the usual procedure to carry out the necessary further work for issuing import licenses.
- Adherence to the provisions of the Import and Export (Control) Act No 1 of 1969 should be required in issuing licenses.
- (iii) Although it is the role of the Controller General of Import and Export to take care of the import of high-quality goods, the department had issued the license when the stock of fish had spoiled with a bad smell and was harmful to the environment by the time it reached the port.
- Although, it is the role of the Controller General of Imports and Exports to take care of the import of high-quality goods, the regulatory function of the quality of those goods is performed by the government institute to which the goods are related. It is the institute that gives the recommendation to this department to release those goods. It is not a function of the department. However, arrangements have been made to issue licenses for the import of fish waste parts to the Eco N Rich Organic Fertilizer institute subject to several conditions.
- Attention of the Import and Export Controller General should be required about the import of high-quality goods.
- Further, by the committee appointed in this regard by Sri Lanka Customs, after being identified this item as 0511.91.10 that an item subject to license control under the said committee, a license has been issued to provide these discarded fish parts for making liquid organic fertilizer, and not for human consumption.

- (b) Although, the department's mission statement stated that it should carry out its duties regarding the control of the import of goods considering the economic situation of the country, at a time when there was a foreign exchange crisis in the country and the import of ethanol has been restricted, the department had arranged to release an import license for the import of molasses required for the production of ethanol to Ceylon Sugar Company for a value of 1,960,000 USD on 21 January 2022.

With the aim of producing ethanol in the country itself, as recommended by the Excise Department, from the date of 01.01.2020, issuance of permits for import of ethanol was suspended. At the same time, Palwatta and Sevanagala sugar companies use molasses as a by-product of sugar production to produce ethanol locally.

When duties are performed, adherence to the mission statement of the department is required.

Since there is a shortage of molasses required for the production of ethanol for the year 2021 target at 12.5 million liters, Lanka Sugar Company requested permission to import molasses to overcome the shortage.

While recommendations of the Excise Department were given in the letter Molasses Import dated 19.01.2022 for that, through the letter No PS/EDC/MA2/01(ii) of 05.05.2021, the President's Secretary had also instructed to issue licenses for the above-mentioned imports.

4. Good Governance

4.1 Implementation of the Directions given by the Committee on Public Accounts

Audit Observation	Comments of the Accounting Officer	Recommendation
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As per the orders of the Interim Report of the Committee on Public Accounts submitted to Parliament on 23 November 2016 to recommend actions to be taken by and among stakeholders for improvement of collection of government revenue through effective information technology systems, "it was informed that plans should be made to obtain	During the Committee on Public Accounts held on the date of 23 November 2016, the situation was stated according to the program that was planned at that time. Preparation of these programs had been undertaken by the ICTA institution to perform at their cost in the year 2017. Nevertheless, due to the fact that the work of improving the computer system	Compliance to the directives of the Committee on Public Accounts should be required.

recommendation letters from the relevant institutions online while issuing licenses with the coordination of twenty-eight institutions", the recommendation had not been implemented even as at the audit date of 23 March 2023.

was not properly completed by this institution, the work had to be abandoned.

Hence, the work of improving an online computer system has been restarted by the Department, the agreement was expressed to provide an online computer system as a grant from the EXBS program operated under the Office of the Embassy of the United States of America and the preparation of the program was started from April 2023. Preparation of this computer system has been planned to complete by February 2024 and arrangements have been made to connect the institutions that have given recommendations under the program online.

5. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>Approved staff as at 31 December 2022 of the Department was 111 and the actual staff was 92. There were vacancies related to 03 posts of the senior level such as Deputy/Assistant Controller, Legal Officer and Assistant Director – Information Technology at that date. Further, there were vacancies of 02 officers in tertiary level, 12 officers in secondary level and 02 officers in primary level.</p>	<p>Most of the vacancies are related to the island wide services and integrated services and the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government has been notified to fill up relevant vacancies. Accordingly, the relevant vacancies are currently being filled.</p> <p>Further, as the Legal Officer is a departmental post, recruitment procedures are currently being prepared.</p>	<p>Vacancies should be filled for the essential posts.</p>