

## Head 247 – Sri Lanka Customs

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head 247 - Sri Lanka Customs for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information 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 05 June 2024. Annual Detailed Management Audit Report related to the Department in terms of Section 11 (2) of the Audit Act was issued on 01 July 2024. 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 2023, 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**

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**

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 during the previous year had been implemented except for the observation made in paragraph 1.6.1 (b) (iii) of the basis for the qualified opinion in my report.

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Deposits

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Due to wrongly debiting an amount of Rs.3,845,000 to the tender deposit account, the balance of the deposit account was understated by that value in the statement of financial position as at the end of the year under review.	The amount of Rs.3,845,000 which was over-credited while crediting the money held in the tender deposit account to the government revenue related to the year 2020, has been corrected in the account summaries of April 2024.	Accurate deposit account balance should be included in the statement of financial position.

#### (b) Property Plant & Equipment

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(i) As Sri Lanka Customs has not accounted for 13 vehicles worth Rs.68,500,000 which are in use and running condition currently, the value of non-financial assets had been understated by that value. An amount of Rs.1,424,171 had been incurred as repair costs, insurance costs and other service costs for those vehicles.	Sri Lanka Customs has currently accounted for 102 vehicles valued at Rs.393,550,000. It is noted down to check and do the correction regarding the vehicles and values mentioned in the query.	All the vehicles owned by Customs should be included in non-financial assets.
(ii) The value of the 3 vehicles sold in the year 2022 is Rs.4,250,000 was not removed from the accounts and the value of non-financial assets was overstated by that amount.	It is noted down to check and do the correction regarding the vehicles and values mentioned in the query.	The value of assets sold should be removed from the accounts.
(iii) Although, the value of land in the financial statements as at the end of the year under review was shown as Rs.4,171,150,000, actions had not been taken to assess the value and to account 16 plots of land.	The letter No. Log/S/03/06-01B dated 29.05.2023 has been forwarded to the Government Valuation Department to obtain the valuation values of 09 government lands belonging to Sri Lanka Customs and the	All the lands owned by the Customs should be assessed and accounted for.

valuation values of only 04 pieces of land mentioned therein are Submitted by letters dated 07.12.2023, 19.01.2024. The valuation values of the other 05 plots of land have not been given so far.

(c) **Lack of Audit Evidence**

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>A total of Rs.3,050,750,306 consisted of Rs.2,055,010,979 as salaries, wages, overtime, holiday payment and incentives from the Consolidated Fund of the Government and Rs.995,739,327 from the Customs Overtime, Cargo Examination fee and Information Technology Communication Fund had been paid for 2204 officers of the Sri Lanka Customs in the year 2023 and the fingerprint records, which were the evidence substantiating the said expenditure, had not been submitted to the audit. Although, it was informed to audit by the Director General of Customs that a proper attendance register is maintained under the General Form 18 to record the arrival and departure, in the letter dated 26 September 2023 of the Director General of Establishment had informed that if such a document is used, the same time mentioned in it can also be recorded in the fingerprint machine as well.</p>	<p>Although, according to the Public Administration Circular 09/2009, the arrival and departure of officials should be confirmed by the use of fingerprint recording machines, due to the nature of the work of the Customs Department, it has been practically difficult to implement. Therefore, to record the arrival and departure of the officials of the Sri Lanka Customs Department, a formal signature register is maintained as per General Form 18, and a separate formal register is also maintained for leave documents and customs overtime of which the approval of a staff officer is obtained for the same with. Overtime payments are made after proper verification. Therefore, it is unable to agree with the observation that there is no evidence for audit, and agree only with not acting upon the Public Administration Circular 09/2009.</p>	<p>As per the Public Administration Circulars, the arrival and departure of officers should be verified by the use of fingerprint recording machines.</p>

## 2. Financial review

### 2.1 Revenue Management

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

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) <b>Basic Estimates and the Revised Revenue Estimates</b></p> <p>The estimated revenue for the year under review is Rs.800,949 million and later it had been revised for Rs.628,054 million. That's a 22 percent reduction from the original estimate. The actual revenue collected for the year was Rs. 694,082 million, which was 87 percent against the original estimate.</p>	<p>Noted this to take actions after an analytical study.</p>	<p>Estimates should be prepared prudently.</p>
<p>(b) <b>Reconciliation with Preceding Year Revenue</b></p> <p>In comparing the revenue of the year under review with the revenue of the preceding year, a considerable decrease was observed in relation to 05 revenue codes and it was ranging from 3 per cent to 35 per cent.</p>	<p>Noted this to take actions after an analytical study.</p>	<p>Attention should be drawn into the methods of increasing revenue.</p>
<p>(c) <b>Tax Revenue in Arrears</b></p> <p>Out of the total arrears of tax revenue amounted to Rs.58,478,974,134 as at 31 December 2023, Rs.57,709,049,189 or 99 percent of that was the arrears of tax revenue existed before the year 2020. In response to the draft of this report, the Director General of Customs had reported to me that it is difficult to find information related to the old tax arrears from the department. Furthermore, as it was stated in</p>	<p>Letters have been submitted to the relevant Ministries and Departments to recover the reported arrears. Due to the difficulties in finding information related to these default income values and also due to the fact that no provision has been allocated to the relevant institutions for the recovery of default income in the transition years, the recovery progress has taken a very small value.</p>	<p>Necessary measures should be taken to collect the revenue due to the Government without delay.</p>

the financial statements that these shortfalls arose "due to the release of goods on a later payment basis upon the approval of the Treasury," special attention should have been paid to the issuance of such approvals.

## 2.2 Expenditure Management

### 2.2.1 Recurrent Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) <b>Saving of Allocations</b>	The requirement of provision was prepared based on the existing staff as on 30.06.2022, and the provision has remained due to the employees of that staff retiring, going abroad, resigning from service etc.	Estimates should be prepared prudently.
(b) <b>Variations in Expenditure</b>	The explanation related to this has been presented.	Attempts should be made to limit expenses whenever possible.

### 2.3 Incurring Liabilities and Commitments

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p><b>Other commitments and liabilities</b></p> <p>The total value of liabilities paid in the year 2024 in relation to 08 expenditure codes which were not included in the description of liabilities submitted with the financial statements and in the liability register was Rs.34,767,112.</p>	<p>According to the lists of liabilities given by the relevant departments, the statement of liabilities has been submitted correctly and payments have been made for these vouchers for the continuation of the operations of the Customs Department.</p>	<p>All the liabilities should be included in the liabilities and commitment register.</p>

### 2.4 Certification by the Accounting Officer

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>In accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018, the accounting officer shall ensure that an effective internal control system is developed and maintained for the financial control of the department and review the effectiveness of the system from time to time to ensure that the system is effectively maintained. Necessary changes should be made and the reviews should be done. A copy of the same should be submitted to the Auditor General in writing. However, statements that such reviews were made were not submitted to the audit.</p>	<p>According to Section 38 of the National Audit Act, the review by the accounting officer was neglected to be done in writing, and it was noted to be done correctly in the future.</p>	<p>The provisions of Section 38 of the National Audit Act No. 19 of 2018 should be followed.</p>

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

Audit Observation	Comments of the Accounting Officer	Recommendation
<p><b>Reference to Laws, Rules and Regulations</b></p>	<p><b>Non-compliance</b></p>	
<p>(a) Customs Ordinance No. 17 of 1968</p>	<p>(i) When obtaining a Manufacture in Bond facility, the bonded goods should be assessed and paid as “imported goods” at the time of release from the warehouse for domestic use. However, the 70 percent excise duty concession given to vehicle manufacturers with a value added of not less than 30 percent locally on the recommendations of the Minister of Industry had been obtained by two vehicle component assembling companies using the same bonded warehouse facilities. The customs had taken actions to give the said tax relief by ignoring the provisions of the Ordinance. Accordingly, the two respective companies had assembled 326 vehicles in the warehouse and released them to the local market in the</p>	<p>The instructions to take further action on this matter has been sought from the Attorney General. Compliance to the provisions of the Customs Ordinance is required.</p>



year 2023. Although, the excise tax to be charged was Rs.350,432,000 when the assembled vehicles were released from the warehouse, only Rs.246,628,800 had been charged. Therefore, the government revenue had been decreased from Rs.103,803,200.

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| <p>(ii) One such vehicle assembling company had paid 30 percent excise duty on 2 types of vehicles in the year 2023 and got released the vehicles from customs warehouse and sold them at very high market prices earning a huge profit. Accordingly, the market price of one type of vehicle was Rs.11,525,423 without VAT of which cost Rs.6,307,763 when it was released from the warehouse, while the cost of the other type of vehicle when it was released from the warehouse was Rs.9,782,658 and the sales price without VAT was Rs.13,555,084. There was a difference of Rs.5,217,660 and Rs.3,772,426 between the cost and market selling price of the above two types of vehicles respectively.</p> | <p>Agree with the audit observation.</p> | <p>Compliance to the provisions of the Customs Ordinance is required.</p> |
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- (ii) Section 153 (2) (b) Although, a suitable methodology should be prepared to disburse the reward money out of the reward fund with the concurrence of the Minister of Finance, without verifying whether the concurrence of the Minister of Finance was obtained for the Departmental Order No. PL 118 of 28 January 1988, a sum of Rs.19,429,331,820 for the officers and a sum of Rs.2,980,886,848 for the informers had been disbursed as reward funds for 12 years since 2012 to 2023. It was informed to audit by the Director General of Customs that the documents pertaining to the Minister's approval obtained could not be found from the institute by now.
- Hence, in accordance with the decision of the Court of Appeal in the case of Gunathilaka vs. Weerasena, the Departmental Order of PL 118 dated 28.01.1988, relating to the distribution of reward money from the Customs Department has been declared to be a valid, active and enforceable document, it has become a case law.
- Further, as per the legal letter E/248/2002 sent by the Attorney General's Department dated 31.12.2002, the Supreme Court has decided that the departmental order bearing PL 118 related to the distribution of customs reward money is a document issued with the necessary approvals through a proper mechanism. This appears correct as per the explanation also. Accordingly, there is a clear legal basis for the reward money paid to officials and informants from the Customs Reward Fund, and the relevant reward money has been given according to the Customs Ordinance.
- Compliance to the provisions of the Customs Ordinance is required.

(iii) Section 162

Although, appropriate action should be taken as soon as possible in respect of the goods declared illegal after seizure in accordance with the referred clause, 39 containers containing various food items, medicines and fertilizers of unconfirmed value ranging from 02 years to 12 years old, and 448 containers containing various materials from 01 years up to 05 years old, 116 containers from 05 to 10 years old with unknown contents/absence and 38 containers from more than 10 years old were kept at various places till at the last date of the year under review. Furthermore, it was reported to audit that 53 containers of rice worth Rs.186,058,922 from 01 to 06 years old are at a level unfit for human consumption, and due to a gazette published by the Consumer Affairs Authority, a situation has arisen where it was impossible to use them as animal feed.

Since 2019, 53 containers containing rice have not been released due to the presence of a case in the Court of Appeal regarding other containers containing rice imported with the same containers. Because, Custom declarations have not been submitted to release them. After that, although the relevant containers were noted and presented to the customs to be released according to the decision of the Court of Appeal, it has been confirmed by the government analysis's reports that they have reached the level unfit for human consumption. Further, the use of imported rice as a raw material for animal feed has been prevented by the Gazette No. 2285/18 published by the Consumer Affairs Authority on 24.06.2022. Therefore, it has not been possible to release the relevant containers.

Compliance to the provisions of the Customs Ordinance is required.

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

- (i) Sub-paragraph 4 of Chapter XXIV
- There were the loan balances due from the dead officers exceeding 10 years amounting to Rs.217,016, outstanding from 01 to 03 years amounting to Rs.626,014, outstanding balance from less than one year amounting to Rs.323,954.
  - There were the loan balance due from the retired officers from more than 10 years amounting to Rs.349,446, the loan balance from 03 years to 10 years amounting to Rs.556,817, the loan balance from 01 to 03 years amounting to Rs.50,855, less than one year loan balance amounting to Rs.1,530,130 as at the end of the year under review.
  - There were the loan balances from the officers transferred amounted to Rs.394,007 which were outstanding from more than 10 years and an amount
- The information of the unrecovered loan balances of two officers is being collected and the gratuity portion of some of the staff has not been paid until now.
- Compliance to the provisions of the establishment code is required.
- Gratuity provision of some of the officers is being prepared and information is being collected related to some of the officers.
- Their working places have been informed about the settlement of loan balances by cross entries

of Rs.373,393 outstanding from less than one year. However, actions had not been taken to settle.

- There were the loan balances from suspended officers from more than 10 years old amounting to Rs.1,243,542, loan balance from 01 to 10 years old amounting to Rs.233,836. There were the loan balances of the officers who had vacated their posts amounting to Rs.473,073 outstanding from more than 10 years, loan balance from 01 to 03 years amounting to Rs.226,304, and loan balance from less than 1 year amounting to Rs.286,527. Actions had not been taken to recover these loan balances from the relevant officials.

Disciplinary inquiries of some of the officers are being conducted and information is being collected related to some of the officers. Reminders have been sent.

- (ii) Section 13 of the Chapter XLVIII
- The Director General of Customs had complained to the Bribery or Corruption Investigation Commission regarding a money fraud committed by an Assistant Customs Officer in the year 2020 and there was no departmental investigation had been
- I checked on this and made a note for further action. That institutions shall comply with the provisions of the Code.
- Compliance to the provisions of the establishment code is required.

held for the officer even as at 31 December 2023 citing the fact that the Customs did not have information about the related fraud.

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| (c) | Ministry of Lands and Land Development Circular No. LD-1,34(I) of 13 June 2008 | There are 18 squatters residing in the premises owned by the Sri Lanka Customs on Morgan Road, Slave Island, and no steps have been taken to remove the squatters as per the circular. | A notice has been given to the Colombo Divisional Secretary to evacuate the squatters in the housing complex located at Morgan Road No. 40. After handing over the land in question to the Customs Department, necessary steps will be taken to evict the squatters. | Adherence to the provisions of the Circular is required. |
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### 3. Operational Review

#### 3.1 Performance

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Although, the department had not submitted the annual performance report by 28 February 2024 in accordance with Section 16 (2) of the National Audit Act No. 19 of 2018 and Section 10.2 of the Public Finance Circular No. 2/2020 dated 28 August 2020, the correctness of the figures and other information mentioned in that report could not be checked during the audit.	Arrangements are being made to submit the 2023 Annual Performance Report before 150 days from the end of the financial year.	The performance report should be submitted on due date as per the provisions of the National Audit Act and the Public Finance Circular.

- (b) There were 8450 customs investigations conducted by various departments of the customs as at 31 December 2023. Out of these, 3080 investigations for more than 05 years, 4348 investigations for 02 to 04 years, and 1022 investigations within one year were remained unsolved. The seized goods were destroyed, spoiled, could not get proper value from the subsequent sale, and the informants and officers were demoralized due to the delay in the investigation.
- From July 2015 to 01.01.2024, the information about the entire customs investigation work has been provided according to the electronic centralized information system as at 01.01.2024.
- The investigations should be completed promptly.
- (c) Despite the fact that a scanning system has been introduced at the inspection of containers to prevent customs offences, arrangements have been made to link the systems between other related agencies and a reward system has been introduced for customs officers based on investigations etc., there were 1902 customs offenses of which were the basis for investigations. Out of these cases, 224 cases pertaining to excess goods imports, 498 cases of undeclared imports, 207 cases of un-declared imports, 188 cases of prohibited or restricted imports, 211 other cases of violation of the Customs Ordinance, etc., were detected. However. the Director General of Customs has been replied to me that they are working to establish an "Automated Risk Management System" in the Customs, which can be used to make decisions for the enforcement and facilitation of the law, and which has the ability to be improved in accordance with future requirements.
- Streamlining the import clearance process through a risk-based process has already been initiated by the Customs Risk Management Division. It has also been identified as an essential process by the management, and has the ability to analyze the previous behavior and previous data and future trends of the relevant parties based on various criteria such as importers, exporters, wharf agents etc., goods, countries, payment methods etc. It can be used to make decisions for the enforcement and facilitation of the law as applicable, and has the ability to be improved in accordance with the needs that may come in the future. Efforts are being made to establish an "Automated Risk Management System" in Sri Lanka Customs.
- The modern technology methods should be used to detect and prevent customs offences.

### 3.2 Uneconomic Transaction

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Although, a consignment of sugar imported from India, detected as white sugar, was classified as high risk by the Customs Risk Management Unit (RMU) and sent for in-depth inspection, the work was not done properly and the sample selected was insufficient to detect defects. Therefore, there was also a stock of brown sugar inside the containers and the goods had been cleared by customs. However, during the inspection by the Compliance and Facilitation Division following information received to them, 20 undeclared containers of brown sugar were also found. At the end of the investigation, a fine of Rs.500,000 and forfeiture of Rs.189,293,778 had been imposed on the importer and the importer had agreed to the penalty and released the goods from customs custody on a bank guarantee of Rs.190,000,000 without confiscation. Accordingly, the following observations were made.</p>		
<p>(i) A penalty imposed can be mitigated by the Minister in terms of Section 165 of the Customs Ordinance and the appeal made by this importer for such mitigation was rejected by the Minister in the first instance. However, the minister had later approved to reduce the imposed penalty amount by Rs.30 million.</p>	<p>The Honorable Minister of Finance had decided to reduce the fine by 30 million rupees as per Section 165 of the Customs Ordinance.</p>	<p>In mitigation of penalties, the Customs Ordinance should be followed.</p>
<p>(ii) The loss to the government due to this customs offence was Rs.56,106,333.</p>	<p>It was observed through the calculation process during the customs inspection that If the quantity of 607.55 metric tons of brown sugar in question was imported legally, the duty payable on it would be Rs.56,410,083. The total stock of sugar, both white sugar and brown sugar, weighed 1,214.90 metric tons,</p>	<p>The tax revenue receivable to the government should be collected.</p>



and a tax amount of Rs.303,750.00 was paid by the importer to the government for the total quantity declared as white sugar.

**(b) Registration and processing of Customs Declarations in respect of a container which has not been released for more than 5 years**

Although, the container No. MSK 8912638 which arrived at Colombo Port from Japan on 13 June 2017 contained used machinery and motorcycles, a customs investigation was initiated on 29 March 2018 as the importer did not submit customs documents for release of the goods. However, regarding this container which had not been released for about 5 years, the customs declarations had been presented to the customs on 07 April 2022. While the customs investigations were ongoing, the customs declaration department had charged taxes of Rs.2,484,411 on the goods contained in the container by 27 June 2022 and had finished its duties. At this time, the customs data had been transmitted to the Department of Motor Vehicle data system and by the time, the physical audit was carried out on 15 September 2023, 2 vehicles had been registered in the motor vehicle department even though the container in question had not been released from Colombo port. Accordingly, while an investigation was being carried out and there were suspicious chassis numbers in the import register, the customs had proceeded to charge duty without due care and allowing the data to be transmitted to the Department of Motor Vehicle's data system for the goods contained in the container while it was being loaded at the port. Customs had also indirectly encouraged the illegal registration of vehicles in the Department of Motor Vehicle

It has been notified on 29.04.2022 that the Customs Declaration process has been temporarily suspended as the data contained in the section containing the details of the vehicles presented in the customs declaration was suspicious. Through the internal letter dated 30.05.2022, the Director of Customs (Prevention) has informed the Director of Customs (Declaration) that it is necessary to inspect the container bearing MSKU8912638, and for that purpose the said customs declaration should be processed through the normal procedure for future customs investigations. , saying that if differences are observed in the declared items, related measures will be taken under Section 47 of the Customs Ordinance. Accordingly, the payment of the tax related to the customs declaration was made on 03.06.2022, and currently the container is kept at the CICT yard, and the inspection work is being carried out.

Due attention should be paid about the data entered in the customs declarations and the validity of the data in the transmission of customs data to the Department of Motor Vehicle's data system.

- (c) Seized vehicles of 435 were stored in a land that was acquired by the Customs from a private company in Mattakulia area as at 31 December 2023 by paying an annual rent of Rs.41,850,000, and 152 of them were seized 5 years ago. Another 202 vehicles were detained at the Ruhunu Pura port area and there were 36 vehicles that were seized 5 years ago. Despite the fact that all these vehicles have been spent in exchange from the country, due to being parked in yards for a long time, the vehicles have become unfit for driving and a situation has arisen where it is not possible to earn a reasonable amount from an auction.
- It is not possible to make a specific comment on whether there was an exchange expenditure from Sri Lanka in relation to all the vehicles. Most of the vehicles are still being tested. Therefore, we can't make a specific comment about not being able to make fair money from an auction. Agree with other comments.
- Appropriate actions regarding these vehicles should be promptly taken and completed.

### 3.3 Management weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) In relation to a stock of animal feed imported by a private company by submitting fake invoices, the tax value that the company attempted to evade was Rs.15,198,755 and the undervalue of the goods was Rs.63,519,586. However, at the end of the investigation, only a mitigated forfeiture of Rs.500,000 was imposed for the customs duty value attempted to be defrauded and a forfeiture of Rs.19,000,000 for the under-declared value of the goods, which was a great mitigation compared to the offense was committed. This importer had done more than 300 import cases in the years 2021 and 2022 alone and had continuously obtained the wharf service from the same wharf clerk service. However, the department's attention was not focused on the related wharf service. The Committee on Public Accounts had also given orders to the department that "the</p>	<p>Rs. 500,000/- imposed as a mitigated forfeiture under Sections 129 and 163 of the Customs Ordinance was not on the duty value attempted to be defrauded, but on the ground that the customs offense was committed knowingly. According to the investigation file, the customs penalty was imposed after a formal customs inquiry. Further, the mitigation of forfeiture by the Inquiry Officer has been done within the legal framework as per the provisions of the Customs Ordinance.</p>	<p>The due tax revenue receivable to the government should be collected.</p>

existing legal provisions should be amended to avoid the situation where the government loses tax money due to certain fraudulent activities of the wharf clerks".

- (b) Releasing 102 fish containers from the Customs which were not suitable for human consumption

A ship carrying containers of fish that traveled from Sea Shells to Thailand had reached the port of Sri Lanka due to a mechanical failure in the sea area near the port of Colombo and the power supply was stopped. The following observations were made regarding the sale of 98 containers consisting with waste fish to produce organic fertilizers to a local private company found through the local agent of the foreign ship on 09 March 2022.

- (i)

Although the committee appointed by the Senior Director of Customs had decided to change the nature of the ship containing this stock of fish to Import cargo status even though this stock of fish had not been formally approved by a HS Code classification committee and it was reported that this stock of fish had taken a spoiled nature. Further, it was entered in the customs register under HS Code 511.91.10 as Whole Round Tuna In Bulk and accordingly a sum of Rs.6,288,357 had been charged by the customs as tax.

As indicated by this, the remaining 15 containers are not for re-export, but for the production of organic fertilizers, pending the approval of the Ministry of Health.

There is ambiguity about the classification as it is a case where the fish stock has taken a spoiled nature and then it is necessary to refer to a "Classification Committee".

- (ii) Out of 98 containers containing Fish-Waste, the spoiled fish in 40 containers had not been used for organic fertilizer production as at the last day of the year under review, and had been re-exported to Thailand and Malaysia on 3 occasions. The Controller General of Import and Export had reported that 43 containers were used for the production of organic fertilizers and the rotten fish in

As indicated by this, the remaining 15 containers are not for re-export, but for the production of organic fertilizers, pending the approval of the Ministry of Health.

It should be more judicious in decision making.

the remaining 15 containers were kept in a private warehouse. However, it was further confirmed that the initial decision of the Sri Lankan Customs was wrong by reshipping all the 40 containers of fish brought into the country claiming to be for processing organic fertilizers and not used for that purpose.

#### 3.4 **Special Audit Report**

The Special Audit Report No. SPR/2024/01 of 09 April 2024 tabled in the Parliament regarding "Management/Administration of Various Funds in Sri Lanka Customs" available on the website of the National Audit Office, [naosl.gov.lk](https://naosl.gov.lk/web/index.php/en) (<https://naosl.gov.lk/web/index.php/en>) can be downloaded.