

## Report of the Auditor General on Head 247 - Sri Lanka Customs - Year 2015

The audit of the Appropriation Account, Revenue Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Sri Lanka Customs for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Director General of Sri Lanka Customs on 05 December 2016. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### 1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Account

#### Total Provision and Expenditure

The total net provision made for the Sri Lanka Customs amounted to Rs. 2,085.45 million and out of that, a sum of Rs. 2,046.94 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision made for the Sri Lanka Customs amounted to Rs. 38.51 million or 1.85 per cent of the net provision. Details appear below

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	1,870.54	1,865.93	4.61	0.25
Capital	214.91	181.01	33.90	15.77
<b>Total</b>	<b>2,085.45</b>	<b>2,046.94</b>	<b>38.51</b>	<b>1.85</b>

## 2.2 Revenue Account

### Estimated Revenue and Actual Revenue

Sri Lanka Customs had prepared Estimates of Revenue for 16 Revenue Codes for the year 2015 for collection of revenue totaling Rs. 615,555 million and revenue totalling Rs. 615,888 million had been collected during the year under review. The revenue so collected represented 100.05 per cent of the estimate revenue. Details appear below.

Revenue Code	As at 31 December 2015			Excess/ (Shortfall) as a percentage of the Estimate
	Estimated Revenue	Actual Revenue	Excess/ (Shortfall)	
	Rs. Millions	Rs. Millions	Rs. Millions	
10.01.01.00	92,000.00	108,115.91	16,115.91	17.52
10.01.02.00	60.00	33.38	(26.62)	(45.00)
10.01.04.00	55,000.00	56,733.27	1,733.27	3.15
10.01.05.01	42,000.00	42,467.40	467.40	1.11
10.01.05.02	3,400.00	2,713.28	(686.72)	(20.21)
10.01.06.00	-	-	-	-
10.01.07.00	-	0.29	0.29	-
10.01.08.00	56,000.00	52,275.58	(3,724.42)	(6.65)
10.01.99.00	-	-	-	-
10.02.05.01	80,000.00	79,980.67	(19.33)	(0.02)
10.02.05.02	-	-	-	-
10.02.05.03	34,000.00	45,091.92	11,091.92	32.62
10.02.05.04	240,000.00	223,413.69	(16,586.31)	(6.92)
10.02.05.99	10,000.00	3,812.13	(6,187.87)	(61.88)
20.03.02.17	95.00	121.64	26.64	21.00
20.03.03.01	3,000.00	1,129.22	(1,870.78)	(62.36)
<b>Total</b>	<b>615,555.00</b>	<b>615,888.38</b>	<b>333.38</b>	<b>0.05</b>

## 2.3 Advance Accounts

### 2.3.1 Advances to Public Officers Account

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No.24701 of Sri Lanka Customs and the actual amounts are given below.

<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
49.00	25.19	40.00	48.43	310.00	201.79

### 2.3.2 Advance Account on Seized and Confiscated Goods Expenses

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advance Account on Seized and Confiscated Goods Expenses of Sri Lanka Customs and the actual amounts are given below.

<b>Expenditure</b>		<b>Receipts</b>		<b>Debit Balance</b>	
<b>Maximum Limit</b>	<b>Actual</b>	<b>Minimum Limit</b>	<b>Actual</b>	<b>Maximum Limit</b>	<b>Actual</b>
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
11.00	4.59	2.00	2.56	29.00	26.65

### 2.3 ImprestAccounts

The balance of the Imprest Account No. 7002/0000/00/0071/0015/000 of Sri Lanka Customs as at 31 December 2015 amounted to Rs.76.83million.

### 2.4 General Deposit Accounts

The balances of 05 Deposit Accounts of Sri Lanka Customs as at 31 December 2015 totalled Rs. 16,906.77 million. Details appear below.

<b>Account Number</b>	<b>Balance as at 31 December 2015</b>
	<b>Rs.</b>
6000/0000/00/0015/0127/000	9,977.35
6000/0000/00/0001/0035/000	4.06

6000/0000/00/0006/0032/000	1,656.69
6000/0000/00/0006/0061/000	4,640.25
6000/0000/00/0006/0062/000	628.42
	-----
<b>Total</b>	<b>16,906.77</b>
	=====

## 2.5 Audit Observation

-----

The Appropriation Account, the Revenue Accounts and the Reconciliation Statement of the Sri Lanka Customs for the year ended 31 December 2015 had been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the Management Audit Report appear in paragraph 3.

## 3. Material and Significant Audit Observations

-----

### 3.1 Non – maintenance of Registers and Books

-----

It was observed during the course of audit test checks that Sri Lanka Customs had not maintained certain registers whilst certain other registers had not been maintained in the proper and updated manner.

Category of Registers	Relevant Regulation	Observations
-----	-----	-----
(i) Register of Liabilities	Financial Regulation 214	Not maintained
(ii) Register of Electrical Equipment	Financial Regulation 454(2)	Not maintained
(iii) Register of Official Telephones	Financial Regulation 845 (1)	Not maintained
(iv) Appropriation (Votes) Ledger	Financial Regulation 447	Not updated
(v) Register of Fixed Assets	Treasury Circular No. 842 of 19 December 1978.	Not updated
(vi) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002.	Not updated

### 3.2 Lack of Evidence for Audit

-----

The documents in support of 21 Lands included in the Register of Fixed Assets had not been furnished to Audit.

### **3.3 Replies to Audit Queries**

-----

Replies to 23 Audit Queries issued to Sri Lanka Customs during the year under review had not been furnished even by 30 June 2016. The quantifiable value of the transaction relating to those Audit Queries amounted to Rs. 43,305.62 million.

### **3.4 Appropriation Account**

-----

#### **3.4.1 Budgetary Variances**

-----

The following observations are made.

- (a) Provision of Rs. 2.00 million had been made for the Object 247-01-01.2401 Training and Capacity in the Annual Budget Estimates. Out of that provision, a sum of Rs. 1.24 million had been transferred to other Capital Objects on 31 December 2015. A sum of Rs. 2.44 million required for the Training and Capacity Building had been spent from the Management and Compensation Fund. As such, instead of achieving the relevant objective from the limit of the provision made for Training and Capacity Building, the provision had been irregularly transferred to other Objects.
- (b) Provision totalling Rs. 36.81 million had been made in the year under review for 04 Capital Objects. A sum of Rs. 49.83 million which exceeded the provision made by Rs. 13.02 million had been utilized. Accordingly, in order to irregularly preventing the excess on those Objects, a sum of Rs. 15.48 million had been spent from the Management and Compensation Fund. Even though provision should have been made in the Annual Budget Estimates and the Process for the achievement of such objective should have been managed within the limit of such provision, Sri Lanka Customs had not taken action accordingly.

### **3.5 Imprest Account**

-----

The following observations are made.

- (a) The Imprest Account had a balance of Rs. 76.83 million as at 31 December 2015. Out of that balances of Rs. 2.00 million had not been settled even by 31 July 2016 and that balances exists from the year 2008.
- (b) According to the Financial Regulation 371(5) as amended by the Public Finance Circular No. 03/2015 dated 14 July 2015, the Ad hoc Sub – imprest obtained should be settled within 10 days after the completion of the purpose. Nevertheless, Ad hoc Sub – imprests totalling Rs. 1,093,497 granted in 17 occasions had been settled after delays ranging from 01 month to 10 months.
- (c) The Register of Advances had not been updated.

### 3.6 General Deposit Accounts

---

The following deficiencies were observed during the course of audit test checks of the Deposit Accounts maintained by the Sri Lanka Customs.

#### (a) Sundry Deposit Account No. 6000/0000/00/0015/0127/000

---

The following observations are made.

- (i) The balances of the Deposit Ledgers as at 31 December 2015 had not been shown in terms of paragraph 4.3(1) of the State Accounts Circular No. 209/2010 dated 12 July 2010. Those Deposit Ledgers had not been properly updated.
- (ii) The difference of Rs. 45,883,133 that existed as at 31 December 2014 between Treasury Books and the Departmental Books had not been identified and necessary adjustments made even by the end of the year under review.
- (iii) Even though a difference of Rs. 140,839,576 had been revealed between the total of the individual balances of the Subsidiary Ledgers relating to the receipts of sundry deposits and the total of the balances shown in the accounts, that difference had not been reconciled and rectified.
- (iv) Even though a difference of Rs. 13,361,163 had been revealed between the totals of individual balances shown in the Subsidiary Ledgers relating to the sundry deposits of the Sundry Deposits Account and the total of the balances shown in the account that difference had not been reconciled and rectified.

#### (b) Deposit Account No. 6000/0000/00/0001/0035/000 for Goods carried by Air Travel Passengers

---

The following observations are made.

- (i) Action in terms of Financial Regulation 571(2) had not been taken on 29 deposits totalling Rs. 467,249 older than 02 years.
- (ii) Receipts of the Deposits Account for the year under review amounting to Rs. 1,640,122 had not been brought to account.
- (iii) Out of the above deposit balances, the information on the deposits totalling Rs. 1,610,700 released on 01 September 2015, 20 December 2015 and 21 December 2015 had not been recorded in the Ledger. As such, refunds of deposits had been understated by a sum of Rs. 1,610,700 in the Deposit Account presented.
- (iv) The Deposits Ledgers had not been properly updated.

### 3.7 Revenue Accounts

-----

The following observations are made.

The preparation of Estimates of Revenue under 16 Revenue Codes, the collection of Revenue, accounting and presentation of accounts had been devolved on the Head of Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of the test audit of those Revenue Codes.

- (a) Even though recommendation had been made to the Secretary to the Ministry of Finance under the Cabinet Memorandum No. 93/360/060 of 17 March 1993 to amend the Excise Duty (Special Provision) Act, No. 40 of 1990 for the formulation of a Consolidated Excise Duty (Special Provisions) Act to allow the Director General of Customs to implement the Excise Duty Act on the Excise Duty imposed on other goods except Liquor and Tobacco, an Act with the relevant amendments had not been prepared even by 31 December 2015.
- (b) No recovers whatsoever had been made from the arrears of tax amounting to Rs. 34.28 million that remained recoverable from the Regional Infrastructure Development Levy which was rescinded in the year 2011. Nevertheless, a sum of Rs. 286,733 collected under the Revenue Code on Import Cess Levy had been brought to account under the Revenue Code on Regional Infrastructure Development Levy.
- (c) Refunds made in cash totalling Rs. 36, 434.69 million had been shown in the Revenue Accounts relating to 8 Revenue Codes of the year under review. Out of that amount, a sum of Rs. 36,186.53 million or 99 per cent had been the debits made for rectification of errors.
- (d) The journal entrees on rectification of errors amounting to Rs. 9,215,001,221 and Rs. 13,751 in respect of Revenue Codes 10.01.01.00 and 20.03.03.01 respectively had not been furnished to Audit.
- (e) The total of arrears of tax revenue recoverable according to the Statement of Arrears of Revenue as at 31 December 2015 amounted to Rs. 19,493.54 million and out of that entire arrears of revenue 59 per cent related to the arrears of revenue in respect of the years prior to the year 2014. The arrears of revenue for the year 2015 as compared with that of the year 2014 had increased by Rs. 3,466.70 million or 21.62 per cent.
- (f) The arrears of Import Duty Revenue as at 31 December 2015 amounted to Rs. 7,468.90 million. Out of the entire revenue in arrears 38.31 per cent represented that value. The arrears of Import Duty Revenue as compared with the year 2014 had increased by Rs. 1,386.56 million or 22.79 per cent in the year 2015. A sum of Rs. 5,921.66 million or 79.28 per cent related to the arrears of revenue of the period from the year 2006 to the year 2014.
- (g) The arrears of revenue from the Ports and Airports Development Levy as at 31 December 2015 amounted to Rs. 3,118.98 million. That represented 16 per cent of the overall arrears of revenue. Out of that arrears of revenue 86.08 per cent or Rs. 2,684.77 million existed over

periods ranging from the year 2006 to the year 2012. The Sri Lanka Customs had not taken adequate course of action for the recovery of that arrears revenue.

- (h) Import Cess Levy amounting to Rs. 1,604.19 million had been in arrears by the end of the year under review. That represented 8.23 per cent of the overall arrears of revenue. Revenue amounting to Rs. 1,542.31 million related to the period from the year 2006 to the year 2014 had been in arrears and that represented 96.14 per cent of the overall Import Cess Levy. Even though the Audit was informed that reminders for the collection of the arrears of revenue were sent continuously, the Customs had failed to recover that arrears of revenue even by 30 April 2016.
- (i) The arrears of revenue from the Special Commodity Levy as at 01 January 2015 amounted to Rs. 15.15 million. That had materially increased by Rs. 3,582.93 million or 23649 per cent to Rs. 3,598.08 million by 31 December 2015. The reason for such increase had been the arrears of the Special Commodity Levy on the rice imported by a Government Company in the year 2015. The total arrears of tax payable under different categories of tax by that Government Institution as at 31 December 2015 amounted to Rs. 718.12 million and the failure of that the company to take formal action to release a part of the stocks of imported rice to the market was established in audit. Certain stocks of rice had either become outdated or issued for animal feed or destroyed. As such the recovery of the arrears of the Special Commodities Levy receivable from that Government Institution amounting to Rs. 3,582.93 million had been in Suspense.
- (j) The arrears of revenue from the Excise Duty on Liquor as at 31 December 2015 amounted to Rs. 89.26 million. That balance of arrears existed from the year 2001 as the company had defaulted the payments. The Sri Lanka Customs had filed a case against that company for the recovery of the arrears of revenue. The Sri Lanka Customs had failed to recover the arrears of revenue even by 31 December 2015.
- (k) The Excise Duty on the manufacture of motor vehicles amounting to Rs. 1,084.65 million or 5.56 per cent of the overall arrears of the Excise Duty Revenue had been in arrears as at 31 December 2015. The Excise Duty on manufacture of motor vehicles had been in arrears as such due to the release of motor vehicles to the Government Institution with the approval of the General Treasury on the basis of the postponement of the recovery of the Duty.
- (l) Other Excise Duty amounting to Rs. 6.70 million relating to the periods from the year 2006 to 2014 had been the arrears and that represented 93.94 per cent of the overall other Excise Duty Revenue. Even though legal action for the recovery of that arrears of revenue had been commenced the recovery of that arrears of revenue had been at a weak level.
- (m) There were differences between the amounts of the revenue shown in the Revenue Accounts of 3 Revenue Codes for the year under review presented to the Audit and the amounts shown in the Revenue Ledger. But the Revenue Accounting Officer had certified that such revenue was reconciled.



- (n) Even though the revised Estimate of Revenue on local sale of garments for the year under review had been shown as Rs. 100 million, that had been shown as Rs. 95 million in the Revenue Account. As such a difference of Rs. 5 million was observed.
- (o) Even though the revised Estimate of Revenue on Fines and Forfeits for the year under review amounted to Rs. 1,400 million, that had been shown as Rs. 3,000 million in the Revenue Account.
- (p) Even though the Fiscal Policy Circular No. 01/2015 dated 20 July 2015 specifies that the Statements of Arrears of Revenue should be furnished to the Director General of Fiscal Policy with a copy to the Auditor General within the following month, the Sri Lanka Customs had furnished the Statement of Arrears of Revenue as at 31 December 2015 on ly on 29 March 2016 after a delay of about two months.
- (q) The Revenue Ledgers of the Department had not been maintained corresponding with the Monthly Summary of Accounts as specified in paragraphs 04(a) to (e) of the Fiscal Policy Circular No. 01/2015 of 20 July 2015.

### **3.8 Reconciliation Statement of the Advances to Public Officers Account**

---

The following deficiencies were observed during the course of the audit test checks of the Reconciliation Statements as at 31 December 2015 of the Advances to Public Officers Account Item No. 24701.

- (a) According to the Reconciliation Statement presented to the Audit, the balances outstanding as at 31 December 2015 totalled Rs. 201.73 million. Even though such outstanding balances existed over periods ranging from the year 1992 to the year 2015, the follow up action on the recovery of those outstanding balances had been at a weak level.
- (b) Even though a difference of Rs. 63,009 had been revealed between the total of the Individual Balances Classification Summary and the balance of the Control Account, action had not been taken to reconcile and rectify that difference.
- (c) According to paragraph 5 of the Public Enterprises Circular No. 96 of 18 August 1994 the date and place of the officers transferred had not been noted in the Schedule of Loan Balances recoverable from the Officers transferred out.

### **3.9 Advances Account on Expenses of the Seized and Confiscated Goods**

---

The following observations are made in this connection.

- (a) A qualified opinion had been expressed on the Advance Account for the year under review.

- (b) The outstanding recoverable balances of the Advance Account amounted to Rs. 26,635,510 and the follow up action on the recovery of those outstanding balances had been at a weak level.
- (c) During the course of the investigation into an incident for which an advance had been obtained for expenses had been observed as there were no Customs offences involved. As such the the Customs investigations relating to such incidents had been ceased. But there was no methodology for covering those advances obtained.
- (d) It was observed that the supervision had not been carried out adequality as the records and register had not been maintained properly.

### **3.10 Good Governance and Accountability**

-----

#### **3.10.1 Audit and Management Committee**

-----

Even though the Audit and Management Committee should meet at least once in each quarter, only 3 meeting had been held in the year under review.

#### **3.10.2 Performance Report**

-----

Even though the Sri Lanka Customs should table the Performance Report for the year 2015 within 150 days after the close of the financial year in terms of the Public Finance Circular No. 402 dated 12 September 2002, that Report had not been tabled in Parliament even by 31 July 2016.

### **3.11 Assets Management**

-----

The following deficiencies were observed during the course of the audit test checks of the assets of the Sri Lanka Customs.

#### **(a) Idle and Underutilized Assets**

-----

The following observations are made.

- (i) Out of 4 scanners purchased for U.S.\$ 15,600,000 only 2 scanners had been in operation in the year 2015 and Rs. 47,222,100 for servicing the scanners and Rs. 3,071,528 for repairing the scanners had been spent in the year under review. Out of containers released during the year under review a very insignificant number of 10,737 containers or 3.25 per cent, only had been examined by scanners. As such it was observed that the cost of examining a container amounted to Rs. 4,684 approximately. As such it was observed that the scanners on which a heavy financial cost and annual maintenance and repair costs

are incurred are being underutilized and that there is the necessity for the examination of a large volume of containers exist.

(ii) Seven finger print machines purchased by the Sri Lanka Customs at a cost of Rs. 859,500 had not been made use of even by 30 April 2016. These machines had been idle due to the refusal of the Customs Officers to use these machines and the failure to install these machines since the commencement of the operation of the new Customs Building.

(iii) The access control system installed at a cost of Rs. 21,643,754 in the new Customs Building was not in operating condition even by the end of the year under review.

**(b) Conduct of Annual Boards of Survey**  
-----

The evidence in support of recording the information of the goods purchased and the goods disposed of during the year and forwarding the report thereon to the Director General of Public Finance in terms of paragraph 5 of the Public Finance Circular No. 02/2014 dated 17 October 2014 had not been furnished to Audit.

**(c) Assets given to External Parties**  
-----

Instances of irregular release of certain assets to external parties were observed. Details appear below.

(i) The lands belonging to the Sri Lanka Customs in the Northern and Eastern Provinces had been used by the Tri -Forces without effecting legal transfer.

(ii) The Sri Lanka Customs had given a land situated at Munnakkara in Negombo to the Department of Coast Conservation without making a legal transfer.

(iii) The lands belonging to the Sri Lanka Customs situated at Selby Road and Stephens Walk at Negombo had been utilized by external parties without a legal transfer.

**3.12 Unsettled Liabilities**  
-----

The unsettled liabilities of the Sri Lanka Customs less than one year old as at 31 December 2015 amounted to Rs. 21.13 million.

### 3.13 Non - compliance

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

The instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non - compliance
-----	-----	-----
	Rs.	
<b>(a) Statutory Provisions</b>		
-----		
(i) Excise Duty (Special provision) Act, No. 13 of 1989.	-	(i) An agency or a wholesale Institution related to a company manufacturing Cigarettes had not registered with the Excise Duty Division of Sri Lanka Customs for the payment of Excise Duty.
		(ii) Action in terms of Section 5(1) and 32 of the Act had not been taken at the times of change of the Duty by the Government from time to time to adjust the Excise Duty and recover from the stocks of cigarettes available at the stores of the Institution, stores of the Regional Agents and wholesale stores.
<b>(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka</b>		
-----		
(i) Section 1.7 of Chapter XII	-	Certain Divisions of the Sri Lanka Customs had not maintained the Leave Register in from General 190.
(ii) Section 5.1 and 8.1 of Chapter XII	297,141	Even though the leave entitled per year of a Public Officer is 45 days, 05 instances of obtaining leave in excess of that limit were observed.

Even though those officers had not applied for lieu leave they had been paid the incentive allowance as well.

(iii) Section 22.4 of Chapter XII - The no - pay leave availed of by the staff had not been reported monthly in Form General 96 to the Auditor General.

(iv) Section 11.1 of Chapter XV - Three instances of travel abroad in the Business Class by officers who are not entitled to travel abroad in the Business Class were observed.

**(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

-----  
(i) Financial Regulation 272 (1) - The payment vouchers for the year under review had not been bundled according to the consecutive order of their numbers.

(ii) Financial Regulation 447(2) - The estimated provision and the additional provision under each Object of the Appropriation (Votes) Ledger had not been posted in the proper spaces and correctness authenticated by a Staff Officer.

(iii) Financial Regulation 447(3) - Totals of the Estimated provisions and transfers under Financial Regulation 66 had not been properly recorded in the Appropriation (Votes) Ledgers.

(iv) Financial Regulation 447(4) - Action on liabilities in terms of the Financial Regulation had not been taken.

(v) Financial Regulation 565(3) - Balancing Accounts had not been maintained in the Deposit Ledger.

(vi)	Financial Regulation 565 (5)	-	A Monthly Abstract Statement of Deposits in Form General 71 had not been sent to Audit before the end of the following month.
(vii)	Financial Regulation 571 (1)	-	Half yearly Statements of Deposits lapsed for more than two years had not been prepared and furnished.
(viii)	Financial Regulation 751 (1)	-	There were instances in which all stores received by the Department had not been taken on charge in the inventory immediately upon receipt.
<b>(d)</b>	<b>Fiscal Policy Circular</b> -----		
	Circular No. 01/2015 of 20 July 2015. Paragraph 04 (a) to (e)	-	The Revenue Ledger of the Department had not been maintained in agreement with the Monthly Summaries of Accounts.
<b>(e)</b>	<b>Department Circulars</b> -----		
(i)	Circular No. 696 of 28 April 2010	1,202,591	Deposits totaling Rs. 718,591 had been released in 06 instances in which only the Deposit Receipt had been produced. Similarly, deposits totaling Rs. 484,000 had been released in 04 instances in which only the Passengers Baggage Declaration (inward) had been produced.
(ii)	Paragraph 04 and Circular NO.01/2010 of 19 December 2010		A Register of Visits had not been maintained in the Passengers Terminal Office of the Katunayaka International Airport.

### **3.14 Performance**

-----

The observations on the progress of the Sri Lanka Customs according to the Annual Budget Estimates for the year 2015 are given below.

## Collection of Revenue

The budgeted Tax Revenue and the Actual Tax Revenue for the year under review as compared with the Tax Revenue of the preceding year are given below.

Tax Category	2015			2014		
	Tax Revenue according to Revised Estimates	Actual Tax Revenue	Actual Tax Revenue as a percentage of Estimated Revenue	Tax Revenue according to Revised Estimates	Actual Tax Revenue	Actual Tax Revenue as a percentage of Estimated Revenue
	Rs. millions	Rs. millions	%	Rs. millions	Rs. millions	%
<b>Taxes on International Trade</b>						
Import Duties	92,000	108,116	117.51	85,000	77,726	91.44
Export Duties	60	33	55.00	25	24	96.00
Ports and Airports Development Levy	55,000	56,733	103.15	80,000	68,646	85.81
Import Cess Levy	42,000	42,467	101.11	40,000	35,622	89.06
Motor Vehicles Concessionary Levy	-	-	-	-	-	-
Regional Infrastructure Development Levy	-	0.29	-	-	1	-
Export Cess Levy	3,400	2,713	79.79	5,000	3,084	61.68
Special Commodity Levy	56,000	52,276	93.34	65,000	47,952	73.77
Others	-	-	-	-	-	-
<b>Excise Duty</b>						
Cigarettes	80,000	79,981	99.97	61,000	57,204	93.78
Liquor	-	-	-	-	12	-
Petroleum	34,000	45,092	132.62	40,000	28,732	71.83
Motor Vehicles	240,000	223,414	93.09	70,000	76,435	109.19
Others	10,000	3,812	38.12	7,000	3,087	44.10
Fees on Local Sale of Garments	100	121	121.00	95	89	93.68
Fines and Forfeits	1,400	1,129	80.64	-	-	-
<b>Total</b>	<b>613,960</b>	<b>615,888</b>	<b>100.31</b>	<b>453,120</b>	<b>398,614</b>	<b>87.97</b>

The following observations are made in this connection.

- (a) The Sri Lanka Customs Department had collected revenue amounting to Rs. 615,888 million under 16 Revenue Codes during the year under review and the revenue collected in the preceding year under 15 Revenue Codes amounted to Rs. 398,614 million. Accordingly, the revenue for the year under review, as compared with the preceding year, had increased by Rs. 217,275 million or 54.51 per cent. The increase in the revenue from the Excise Duty on motor vehicles, the Excise Duty on Petroleum, the Excise Duty on Cigarettes, the Import Duty and the other Excise Duty had an impact on this increase. Similarly the imposition of increased tax rates, increase in the volume of goods imported, deterioration of the foreign exchange rates and the increase in the foreign prices of goods as well had a considerable impact on this increase. The Sri Lanka Customs had not introduced a special methodology for the measurement of the contribution of such impact on the Public Revenue.
- (b) Out of the overall revenue of the Sri Lanka Customs for the year under review amounting to Rs. 615,888 million, 17.55 per cent, that is Rs. 108,116 million had been collected under the Revenue Code on Import Duty. That as compared with the revenue on Import Duty collected in the preceding year indicated an improvement of 39.1 per cent.
- (c) The Excise Duty on Cigarettes reflect 13 per cent of the total Tax Revenue of the Sri Lanka Customs. The increase of that in the year 2015 over the year 2014 amounted to Rs. 22,777 million or 39.82 per cent. That had been due primarily to the increase of the production of Cigarettes by 349,065,680 units over the preceding year, and the increase of Excise Duty on the category of Cigarettes between 73mm to 84mm in length which represent 87 per cent approximately of the total production of Cigarettes.
- (d) Tax Revenue of Rs. 45,092 million had been collected in the year 2015 as the Excise Duty on Petroleum. That represented 7.32 per cent of the overall Tax Revenue of Rs. 615,888 million of the Sri Lanka Customs. That had increased by Rs. 16,360 million or 56.94 per cent over the preceding year. The Excise Duty Revenue on the import of Petroleum amounted to Rs. 34,639 million and that represented 76.82 per cent of the Total Excise Duty Revenue. The Excise Duty Revenue charged on the Local Petroleum Refinery amounted to Rs.10,452 million and that represented 23.18 per cent of the total Excise Duty Revenue. Further, the revenue of Rs. 4,107 million included in that Tax Revenue had been revenue collected in respect of the preceding year. The Excise Duty on the import of petroleum had improved by Rs. 16,940 million or 95.71 per cent over the preceding year. The Excise Duty Revenue charged on Petroleum Refinery during the year under review as compared with the preceding year had decreased by Rs. 2,229 million or 26 per cent. Instead of refining the petroleum, the Ceylon Petroleum Corporation had increased the importation of refined oil and that had a primary impact on the increase of total Excise Duty Revenue. The reduced issue of locally refined petrol and diesel and the increased issue of the imported petrol and diesel had impacted on the decrease in the Excise Duty charged on the Refinery.
- (e) Sri Lanka Customs had collected revenue amounts to Rs. 223,414 million during the year under review under the Revenue Code on the Excise Duty on Motor Vehicles. The revenue collected in



the preceding year amounted to Rs. 76,435 million. Accordingly, the improvement in the year under review, as compared with the preceding year, had been Rs. 146,979 or 192.29 per cent. In the recovery of duties on the Customs Duties, the Value Added Tax, the Excise Duty, the Nation Building Tax and the Ports and Airports Development Levy had been charged. Nevertheless, in view of several matters such as the Notification of the Minister of Finance and Planning published in the Gazette No. 1885/42 dated 24 October 2014 imposition a high Excise Duty on the imported motor vehicles in place of the different kinds of taxes referred to above, the increase of the import of motor vehicles due to the reduction of the assessed values as decided from time to time by the Customs Price Committee and the increase of the import of motor vehicles under the Concessionary Permits on the import of Motor Vehicles, the revenue on the Excise Duty on Motor Vehicles during the year under review, as compared with the preceding year, had increased in large measure.

- (f) The actual performance of the expected revenue of the Revised Estimate for the year 2015 had been an increase of 0.31 per cent, it had decreased by 12.03 per cent in the preceding year.
- (g) Even though revenue exceeding Rs. 50,000 million had been estimated under 05 Revenue Codes, only 2 Revenue Codes that is, the Import Duty Revenue and the Ports and Airports Development Levy Revenue had been able to exceed the expected target. Those were also observed as small increases. The performance of those Revenue Codes had been 117.51 per cent and 103.15 per cent respectively.
- (h) Even though the original estimate of Rs. 80,000 million for the Special Commodity Levy for the year under review had been revised to Rs. 56,000 million, revenue amounting to Rs. 52,275 million had been collected. The Tax Revenue so collected represented 65.34 per cent of the original revenue estimate and 93.35 per cent of the revised revenue estimate. Similarly, the original revenue estimate of the Excise Duty on Petroleum for the year under review amounting to Rs. 50,000 million, had been reduced to Rs. 34,000 million, whereas the revenue collected amounted to Rs. 45,092 million. As such the actual revenue had exceeded the revised estimate of Revenue as well.
- (i) Even though the revenue collected in the preceding year on the other Excise Duties had been Rs. 3,087 million an estimate of Rs. 7,800 million had been made for the year under review. Subsequently that had been revised to Rs.10,000 million. Nevertheless, the revenue collected amounted to Rs. 3,812 million. The Tax Revenue collected represented 48.87 per cent of the original estimate of revenue and 38.12 per cent of the revised estimate.
- (j) The original estimate of revenue for the year under review under the Revenue Code on Fines and Forfeits introduced as a new item of revenue, amounting to Rs. 3,000 million had been revised to Rs. 1,400 million, that is up to 46 per cent of the original estimate. Even though a sum of Rs. 1,129 million had been shown in the Revenue Account as the revenue collected, after the removal of the sum of Rs. 261 million not relevant to the Revenue Code, being the revenue on overtime allowance relating to the years 2013 and 2014 and from January to November 2015, the actual revenue collected under this Revenue Code amounted to Rs. 928 million. That represented 31 per cent of the original estimate of revenue and 66 per cent of the revised estimate of revenue.

### 3.15 Transaction of Contentions Nature

-----

Certain transaction executed by the Sri Lanka Customs had been of contentious nature. The particulars of such transactions revealed during the course of audit test checks are given below.

- (a) The institutions which assemble parts of motor vehicles and manufacture motor vehicles by the year 2014 in Sri Lanka had to pay Excise Duty in the range of 150 per cent to 240 per cent of the factory price of such motor vehicles. Nevertheless, provision had been made that if more than 30 per cent local value addition is made to such motor vehicles, that Excise Duty need not be paid. The Notification Published in the Gazette Extraordinary No. 1885/42 dated 24 October 2014, an Excise Duty of 15 per cent had been imposed again on the factory price of the motor vehicles for which 30 per cent local value addition is confirmed. But, instead of formally finding out about the 30 per cent value addition to the motor vehicles, there were instances in which the Excise Duty had been collected at the time of import of parts. The action taken therein without giving due attention to the large scale of the loss of tax was a contentious matter in audit. The Excise Duty of 15 per cent amounting Rs. 136,305,337 had been collected subsequently on 750 motor vehicle Chassis and the spare parts imported on 27 January 2015 by a Company which manufactures motor vehicles by assembling parts of motor vehicles.
- (b) It was observed that a company which assembles and manufacture motor vehicles in Sri Lanka had subsequently reduced the factory price of 4 models of motor vehicles furnished earlier to obtain the Excise Duty concession. The Sri Lanka Customs had recovered the Excise Duty without properly examining the reason for such deduction of the price and that was a contentious matter in the audit. It was observed that the Company concerned had underpaid the Excise Duty of Rs. 403 million approximately for 5,109 motor vehicles from 24 October 2014 to 20 November 2015.
- (c) It was a contentious issue in Audit whether there is an adequate contribution made to the economy of Sri Lanka from the Excise Duty concession benefit obtained by the institutions assembling motor vehicles in Sri Lanka. Accordingly, one institution had paid Excise Duty of Rs. 1,531 million approximately during the period from 01 October 2014 to 20 November 2015 for 5,829 assembled motor vehicles of 27 categories under the Customs Harmonious Classification No. 09. The Excise Duty recoverable for those motor vehicles under the normal system amounted to Rs.13,177 million approximately. The domestic value addition of 30 per cent to all those motor vehicles amounted to Rs. 2,673 million approximately. Further, the total of the domestic value addition and the Excise Duty recovered on those 5,829 motor vehicles amounted to Rs. 4,204 million. Accordingly, the Excise Duty Revenue sacrificed by the Government of Sri Lanka on the domestic value addition of Rs. 2,673 million amounted to Rs. 8,973 million approximately.
- (d) A bond liability valued at Rs. 109,400,000 maintained by the Ceylon Petroleum Corporation with the Sri Lanka Customs for the period from the year 1996 to the year 2002 had not been settled by the Customs even by January 2014. Subsequent to a Customs investigation

conducted the Ceylon Petroleum Corporation had paid a sum of Rs. 57,736,913 to the Sri Lanka Customs in this connection. A sum of Rs. 28,868,456 out of that amount had been paid by the Sri Lanka Customs as rewards to the Custom Officers.

The recovery of a part of the Bond value recoverable from the Ceylon Petroleum Corporation, a Public Sector Institution, and the payment of rewards to the officers is a matter of contentious nature and it was observed that recovery of the money is the responsibility of the Sri Lanka Customs. It was further observed from the documents that the Treasury had agreed to reimburse to the Ceylon Petroleum Corporation the money paid to the Sri Lanka Customs by the Ceylon Petroleum Corporation. Further, the Sri Lanka Customs had not taken formal steps regarding the sum of Rs. 51,663,087 omitted from the total value of the Bond amounting to Rs. 109,400,000.

- (e) The following matters were observed during the course of audit test checks of 101 motor vehicles out of 406 model TRJ 150W Prado motor vehicles imported during the period from 01 May 2015 to 04 September 2015.
  - (i) These motor vehicles had been purchased from the auctions held in Japan and according to the information that could be obtained a total sum of Rs. 439,687,737 had been spent for the purchase of these motor vehicles. The total value taken for the Customs purpose amounted to Rs. 298,306,703 and as such it was observed that the values had been under assessed at least by Rs. 141,381,034.
  - (ii) Out of these motor vehicles 83 motor vehicles had been imported under the concessionary motor vehicles permits and as compared with value of the sale at the auctions, that had exceeded the maximum value limit of US \$ 35,000. If the charges were collected considering the motor vehicles as normal imports the Customs Duty deprived of amounted to Rs. 694,341,628 approximately.
  - (iii) Even though the Banking System can release exchange only for the value shown in the invoices produced to the Customs in the importation of these motor vehicles, the manner of release of the additional foreign exchange needed to cover the importation cost was a matter of contentious nature in audit.
- (f) The Custom Valuation Committee had reduced the assessed value of the imported motor vehicles of BMW 520D SE at the request of an importer and the loss of Customs Duty on 07 motor vehicles of that model amounted to Rs. 9,051,973 approximately. Several matters further observed are given below.
  - (i) The value specified by the Customs Valuation Committee in connection with the BMW 520 D SE by 24 December 2014 had been US \$ 30,300 and the information on the 07 Motor Vehicles imported to Sri Lanka on 23 December 2014 based on that price had been entered into the Computer System of the Sri Lanka Customs. Accordingly, the full amount of the Customs Duty at the rate of Rs. 5,361,243 per

motor vehicle had been completed as Rs. 37,528,701. But the importer had not taken action to pay that amount.

- (ii) Despite entering the information on the above motor vehicles into the Computer System of the Customs, the Customs Pricing Committee had reduced the assessed value of the motor vehicles of the same model to EURO 23,000 (US \$ 27,148) on 05 January 2015 and 08 days thereafter to EURO 22,600 (US \$ 26,675) on 13 January 2015.
  - (iii) Action had been taken to complete the Duties on the 07 motor vehicles referred to above on the basis of the value based on the price last determined by the Custom Pricing Committee and action had been taken for the recovery a sum of Rs.28,476,728 at the rate of Rs. 4,068,104 per motor vehicles.
  - (iv) It was observed that instead of recovering the duty based on the assessed value determined at the importation of the motor vehicles, action had been taken at the request of the importer to reduce the assessed value and recover the duty. As such a loss of duty amounting to Rs. 9,051,973 had been incurred.
  - (v) Action had been taken for the computation of the duty based on the value of US \$ 30,300 on 05 motor vehicles of the same model imported on about the date on which the above motor vehicles were imported.
- (g) Even though arrangements for being on overtime duty have been made in the payment process a overtime under the Overtime Fund for 27 hours for a period of 24 hours from 8.00 a.m. to 8.00 a.m. on the following day in respect of a holiday and 18  $\frac{3}{4}$  hours, for period of 15  $\frac{1}{4}$  hours on a normal day from 4.45p.m. to 8.00 a.m. on the following day, the approval obtained in that connection had not been furnished to Audit.
- (h) According to paragraph 4(1) of the Notification published in the Gazette No.1520/17 dated 26 October 2007 states that the Director General of Customs can pay overtime to the officers of Sri Lanka Customs for the services rendered by them outside the normal hours of duty or on the days the Customs in closed for duty at the rates determined from time to time by the Secretary to the Ministry of Finance in consultation with the Secretary to the Ministry of Public Administration, But such approval had not been obtained for the payment of overtime by the Sri Lanka Customs.
- (i) Abnormal situations such as certain officers engaged in overtime duty exceeding the total number of hours in a month and according to the Register of Overtime, officers engaged in overtime duty continuously over a number of months in a year were observed.
  - (j) Even though the officers had made complaints in several instances in the year 2014/2015 about the quality of the food of the canteen and the weakness in the preparation of food, running of the canteen for the year 2015/2016 as well had been awarded to the same institution.

### **3.16 Irregular Transaction**

-----

Certain transaction executed by the Sri Lanka Customs had been devoid of regularity. Such instances observed are given below.

- (a) Even though the Sri Lanka Customs had paid a sum of Rs. 4,887,500 from May to September 2009 as the for servicing of the Scanners transferred to the Airport and Aviation Services (Sri Lanka) Company Ltd., money had not been recovered from the Airports and Aviation Services (Sri Lanka) Company Ltd., even by 30 April 2016.
- (b) According to the Guideline 6.3.3(b) of the Government Procurement Guideline, the bids should be opened in the presence of the bidders or their representatives who wish to attend, soon after the closing of Bids. Nevertheless, in the opening of Bids for running the canteen, the Sri Lanka Customs had not taken action accordingly in respect 03 institutions.

### **3.17 Transaction in the Form of Financial Irregularities**

-----

The following observations are made.

- (a) Even though the Audit had pointed out over a member of years about the duty irregularities committed in the importation of motor vehicles imported under the Customs Harmonious Classification 8705 for special purpose other than the objectives of the transport of goods and passengers, the Sri Lanka Customs had not taken action for the introduction of a proper control system for the prevention of such irregularities. As such several similar instances further observed during the year of accounts under review are given below.
  - (i) The importation of Vans for specialised purpose on which very low Customs Duty is charged had been allowed under the Customs Harmonious Classification 8705 for specialised purposes other than the objective of transport of good and passengers. Even though the maximum life of such Vans should be 07 years 160 Vans which had passed that period had been imported.
  - (ii) Social problems such as increasing air pollution and the reduced effective life of the Vans had emerged due to the addition of old Vans for running purposes as specialised Vans.
  - (iii) In order to evade the payment of the increased Customs Duty rate of 150 per cent on the specialised purpose Vans in the Budget Proposals presented by the Minister of Finance on 22 November 2015, it was observed that the importers of 23 Vans which had reached the premises of the Port of Colombo after 22 November 2015 had remitted Customs entries with dates prior to that date to the Customs computer system and deprived of Customs Duty amounting to Rs. 129,986,739 approximately to the Government.

- (b) It was observed in audit, that the motor vehicles imported with the primary objective of using for transport of goods by paying a lesser Customs Duty are being converted in this country as luxury motor vehicles for the transport of passengers thus depriving of Customs Duty in large scale. Such revenue from duty deprived of from 26 such motor vehicles amounted to Rs. 124,176,870 approximately. It was observed that the Director General of Customs has a special responsibility for taking action on such motor vehicles in terms of the Excise Duty (Special Provision) Act, No. 13 of 1989.
- (c) A Defender motor vehicle which appeared like a Double Cab Motor Vehicle imported under the Customs Entry No. CBMV 1 2065 had been cleared from the Customs on the payment of a lesser Customs Duty applicable to a Single Cab Motor Vehicle. As such, Customs Duty amounting to Rs. 3,469,722 approximately had been deprived of.
- (d) It was observed during the course of the audit examination of a motor car registered in the Department of Motor Traffic (Station Wagon) that the said motor vehicle had been cleared from the Customs on the payment of a lesser Customs Duty under the Customs Harmonious Classification No. 8704 - 21 - 51 applicable to Single Cab Motor Vehicles. Accordingly, the Customs Duty deprived of amounted to Rs. 10,468,579 approximately.

### **3.18 Uneconomic Transactions**

-----  
Even though 311 flower vases had been purchased at a cost of Rs. 9,133,100 for beautifying the Customs House, a shortage of 05 flower vases was observed at the physical examination.

### **3.19 Management Weakness**

-----  
The following weaknesses were observed during the course of audit test checks.

- (a) According to the information that could be obtained, a Tobacco Company had manufactured 3,965 million units of Cigarettes in the year 2015. The Government had recovered a sum of Rs. 81,155 million as Excise Duty on the Cigarettes manufactured. According to the Annual Report of the Company, the stock storage period of cigarettes is 04 days. Taking into consideration, the year 2015 only the stocks that should be maintained at a time is only 43.45 million units. Nevertheless, the Company had maintained 02 stores in Kandy and Kotahena which could accommodate stocks of 296 million units. As such it was observed that it was possible to keep in storage stocks of about 253 million units of cigarettes exceeding the number of units to be maintained during the stock storage period. Accordingly, the Sri Lanka Customs had not recovered the Excise Duty on the stocks of cigarette that remained in the above mentioned stores and in the custody of the Regional Agent and the Regional Wholesale Dealers at any of the times in which the Government increased the Excise Duty on cigarettes.

The Government had increased the Excise Duty on cigarettes by Rs.5 and Rs. 2.14 in the years 2014 and 2015 respectively and if the stocks at the maintained capacity above in the years 2014 and 2015, the Excise Duty additionally recoverable by the Government amounted to Rs. 1,480 million and Rs. 633 million respectively. Even though the Duty rate had been

revised in 36 occasions during the years 1990 to 2015 recovery of Duty on the stocks remaining the stores had not been resorted to in any such occasion whatsoever.

- (b) The following observations are made in connection with the examination of imported goods.
- (i) During the year under review 410,153 full containers containing the imported goods had been imported under 185,683 Customs Entries. Out of those containers 80.42 per cent or 329,864 were containers containing goods for domestic use subject to the payment of duty. The balance had been the containers containing goods imported for the institutions relating to the Duty Free and Bonded and under the Board of Investments.
  - (ii) Out of containers containing imported goods subject to the payment of duty (Domestic Use) 212,200 containers or 64.33 per cent had been released through the Amber channel (easy release), 90,012 containers or 27.28 per cent had been released in the Importers premises and 15,457 containers or 4.69 per cent had been released without being examined, whilst 10,097 containers or 3.06 per cent released under detailed examination (Detail Channel) 1,293 containers or 0.39 per cent under the High Risk Channel and 554 containers or 0.17 per cent under the Red Channel (Red Channel) had been released. Accordingly, it was observed 11,944 containers or 3.92 per cent only had been subjected to a formal examination process whilst 96.38 per cent had been released without an adequate examination. It was observed that an adequate assistance had not been provided through the prevailing goods examination process for the detection of the following offences occurring ceaselessly in the Sri Lanka Customs and the minimisation of the loss of taxes caused thereby to the Government.
    - Illegal importation
    - Import of articles exceeding the quantity declared
    - Importation of articles other than those declared
    - Declaration of incorrect Classifications
    - Importation by undervaluation of prices

As such the need for regularising the prevailing methodology for the detection of the above offences was observed in Audit. Further it was observed that the attention of the management had not been paid for the formulation of a system to subject a limited number of containers examined by the officers, to a formal internal check.

- (c) The determination of the nature of Customs examination is done by the Deputy Director of Customs attached to the Screening Division and a proper methodology had not been introduced in that connection. Even though it was stated that the examination methodology would be determined according to the relevant officers' experiences and the historical information of the importer, an information system for the identification of the history and offences of importers had not been installed in the Screening Division and as such it was observed that the examination methodology is determined at the discretion of the officers.

- (d) The Minister of Finance had, by the Notification published in the Gazette No. 1857/03 dated 07 April 2014, vested the powers for the determinations of the price of motor vehicles for the purpose of recovery of duty to the Director General of Customs for the prevention of defrauding the Customs Duty Revenue by the importers by under declaration of the motor vehicles imported to Sri Lanka. The Director General of Customs had appointed a Committee for the determination of the price of motor vehicles. Several deficiencies observed in the performance of the Committee are given below.
- (i) The Committee appointed by the Director General of Customs consists of only two Customs Officers.
  - (ii) The Committee subject the price of motor vehicles to changes very often and the price determined by the Committee are not evaluated by the Director General of Customs or by any other independent party.
  - (iii) The price is not determined at the price of the manufacturer or the market price whichever is higher in accordance with the Gazette Notification.
  - (iv) The reduction of the price furnished at the request of the Agents who imported the motor vehicles and the determination of prices more beneficial to the importers.
  - (v) The value of motor vehicles with several sub models are determined at the lowest model as the value for Custom Duty whilst separate price are not determined for sub – models.
  - (vi) Determinations of price by deducting abnormal discounts on the prices of the manufacturer.
  - (vii) The Customs Pricing Committee does not pay attention to the value prevailing in the foreign market in the determination of the value for Custom Duty.
  - (viii) A survey of the motor vehicles imported is not conducted.
  - (ix) Failure to revise the prices by taking into consideration the impact of the changes in foreign exchange rates on the value of motor vehicles.
- (e) When a motor vehicle imported under the Customs Entry No. 1526 of 25 April 2015 was produced for registration at the Department of Motor Traffic it had been observed that it was a used motor vehicle. Even though Motor Vehicles Divisions of the Sri Lanka Customs was informed to confirm that fact, the Motor Vehicles Divisions of the Customs had sent confirmation that it is not a used motor vehicle. Nevertheless, it was observed that the motor vehicle had been registered under No. YH14VCZ in the United Kingdom and subsequently imported to Sri Lanka. According, it was observed that the goods examination process for duty purposes is not carried out properly.



- (f) According to the Notification published in the Gazette Extraordinary No. 1751/27 of 30 March 2012, it had been specified that the amount of Customs Duty levied on a body shell of a motor vehicle imported under the Customs Harmonious No. 8707.10 should be 15 per cent of the cost, insurance and freight (CIF) imported value or a sum of Rs. 291,000 whichever is more. Nevertheless, the collection of the duty on 2,032 Body Shells at the higher value had not been made by the Customs and as such, the Government had been deprived of duty amounting to Rs. 566,901,545 approximately.
- (g) In the release of goods imported into Sri Lanka deviating from the normal duty payment methodology due to various reasons, the provisions of the necessary facilities in that connection and the supervision thereof are done by the 'D' Division of Sri Lanka Customs. The following weaknesses of that Division were observed.
- (i) The Performance Report of the Division had been prepared from the year 2014.
  - (ii) The registration and the supervision of the Bank Guarantees and the Company Guarantees produced by the importers had been at a weak level.
  - (iii) The information relating to the Bank Guarantees and Company Guarantees had not been included in the Asikuda Computer System, there were opportunities for the evasion of the payment of duty by including fictitious entries that the matter is settled.
  - (iv) Lack of an adequate supervision over the Bulk Cargo such as wheat, cement, petroleum etc.
  - (v) The books and registers maintained by the 'D' Division had not been separately maintained scientifically and technologically and the planning, operation, supervision and control of those had been at a weak level.
  - (vi) There were control weakness in connection with the Register of Arrival and Departure, the Register of Overtime and the Leave Register of that Division.
- (h) An importer had taken action to pay only a sum of the Rs. 549,622 as the duty and obtain the release of a container containing goods on which Custom Duty and charges exceeding Rs. 17 million was payable. Subsequently, the Special Task Force had taken that container into custody at a place outside the Customs Premises. The following observations are made in this connection.
- (i) The container concerned had been imported into Sri Lanka on 15 January 2016 and 09 days prior to the importation to Sri Lanka, the Revenue Supervision Division of the Sri Lanka Customs had taken action to commence an investigation into that container. Subsequently, action had been taken to finalise the investigation without further examination based on an appeal made by the Importer.

- (ii) Even though the container had been sent to the Grey Line Yard I at Orugodawaththa after the examination of the registers of the Clearance Division the Customs Officers had taken action for the release of container without carrying out a physical examination.
- (iii) Action the terms of Section 137 of the Customs Ordinance had not been taken against the Customs Officers who had aided the importer to commit a large scale Customs fraud.
- (h) The Special Commodity Levy of one Rupee (Rs.1) per kilogram of imported rice recovered under the Commodities Harmonious No. 1006 had been repealed and a Special Commodity Levy at the rate of Rs. 20 with effect from 22 January 2015 and Rs. 40 with effect from 25 March 2015 had been imposed. Despite such increase of the duty rates, the Customs had taken action to levy at one Rupee Rate from 10 importers on 22 January 2015 and duty amounting to Rs. 23,104,000 could not be recovered whilst duty amounting to Rs. 55,296,000 could not be recovered as the duty at the rate of Rs. 20 had been levied from 02 importers on 25 March 2015. As such, it was observed that Government revenue from duty amounting to Rs. 79,440,000 recoverable as the Special Commodity Levy is retained with external parties and that adequate action had not been take promptly for the recovery of the outstanding revenue.
- (i) A private institution had imported 52,000 kilograms of rice on 24 February 2015 and Special Commodity Levy of Rs. 1,040,000 should have been paid for that. The importer had been allowed to obtain release of the stock of rice on a Bank Guarantee without recovering the levy.
- (j) The current procedure relating to the disposal of goods seized and confiscated through the Customs investigation conducted by the Sri Lanka Customs is sale of such goods by the Central Disposal Division of the Sri Lanka Customs by inviting Bids and by public auction. A sum of Rs. 546,608,735 had been collected in 45 instances from the sale of such goods. Even though the Internal Circular No. PL 46 issued in accordance with the Gazette Notification No. 291of 30 March 1984 has set out the instructions for the procedure, it was pointed out in the Reports of the Auditor General for the preceding years and the Audit Queries that the sales procedure is not implemented formally and with transparency. Several deficiencies further observed in the year under review are given below.
  - (i) In the conduct of sale a cash deposit of 50 per cent of the purchase price should be recovered from the selected buyer. In the case of public auction a deposit of 10 per cent of the sale price should be recovered on the relevant date itself. But these provisions had not been followed in connection with the sales amounting to Rs. 546,608,735 conducted the 45 instances.
  - (ii) According to the provisions, if the buyers fail to pay the full amount of cash in respect of every sale, within 03 days of the approval of the sale, the relevant deposit is confiscated. But it was observed during the course of audit test checks,

that in the case of 13 instances of goods, 46 days to 167 days had been allowed for the removal of goods.

(iii) In view of the determination of a maximum deposit of Rs. 100,000 in respect of goods with high sales value, 92 instances in which attempts had been made to get the price of goods reduced by leaving the deposits to be confiscated were revealed during the course of audit test checks. Herein deposits confiscated amounted to Rs. 3,800,000 and the assessed prices had been reduced by a sum of Rs. 22,152,347 exceeding the amounts deposited.

(k) Even though the Director, Canteen Committee Supplies had been informed at the Canteen Committee meeting held in 02 January 2014 to include a price for the water, electricity and the Canteen Premises to the Bids from Bid No. 2 onwards, action in accordance with that had not been taken.

(l) Overtime amounting to Rs. 13,807 had been paid to three officers who had participated in foreign workshops, in respect of the days spent abroad.

### 3.8 Human Resources Management

#### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	341	320	21	-
(ii) Tertiary Level	1,152	757	395	-
(iii) Secondary Level	979	610	369	-
(iv) Primary Level	488	326	177	15
<b>Total</b>	<b>2,960</b>	<b>2,013</b>	<b>962</b>	<b>15</b>

The following observations are made.

(a) The approved cadre of the Sri Lanka Customs as at 31 December 2015 had been 2,960 and the actual cadre had been 2,013. As such the number of officers who are directly involved in the Customs activities had been 1,077 approximately.

(b) In view of the significance made to the Public Revenue from the imported goods, in Sri Lanka Customs should have deployed an adequate number of officers for the examination of the containers containing the imported goods. The examination of the containers containing the imported goods is a priority function of the Sri Lanka Customs in order to ensure that the

importers pay the Duty on the imported goods correctly. It was observed during the course of audit test checks carried out in this connection that 24 officers only had been deployed at the Orugodawaththa Containers Examination Centre at which 309,947 containers containing imported goods had been examined in the year 2015. Accordingly one officer had to examine 20 containers per day and as it is not an activity possible practically the containers examination work of the Sri Lanka Customs had not been carried out properly.

- (c) Instance of deployment of staff exceeding the adequate number of officers to certain Divisions which do not make an adequate contribution to the Public Revenue were observed. Even though the overall revenue of the Mattala International Airport for the year 2015 amounted only to Rs. 140,713 the number of officers deployed therein had been 15. Even though 614 officers had been deployed in the Preventive of the Offices Sri Lanka Customs, the duties of the officers of each Preventive Office had not been identified by the Sri Lanka Customs.
- (d) A Register of Information on the number of Officers attached to each Division had not been maintained by the Human Resources Management Division or the Administration Division. As such the information whether the officers had been attached to the respective Division in accordance with the requirements of such Divisions had not been furnished to Audit.