

Report of the Auditor General on Head 247–Sri Lanka Customs- Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 and 17 Revenue Accounts pertaining to the Revenue Codes included in the Table 3:1:1, 3.1.2 and 3.1.3 of the Annual Budget Estimate were presented to Audit by the Sri Lanka Customs. The financial and physical performance reflected by those accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer, Accounting Officer and the Revenue Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations.

1.3 Audit Scope

The audit of Sri Lanka Customs –Head 247 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review will be issued to the Director General of the Sri Lanka Customs in due course. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

1.4 Audit Observation

The material and significant audit observations revealed during the course of audit test check carried out pertaining to the year ended on 31 December 2017 appear in paragraph 2.1 to 2.20 of this report. It was observed that the accountability as the Chief Accounting Officer and the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions specified in the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Accountability of the Accounting Officer in terms of Financial Regulation 128 (1)	Non-compliance of the Accounting Officer and the Revenue Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
----- Financial Regulations -----	-----	-----
128(1)(a)	The work of his department is planned and carried out with due despatch , having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised and that an endeavour is made to complete the programme of work laid down for the year and / or attain the targets specified.	1. Failure to include the matters to be incorporated in the Action Plan. 2.1.1 2. Failure to discharge functions. 2.1.2 3. Sustainable Development. 2.2 4. Utilization of provisions authorized by Parliament. 2.7
128(1)(b)	The organisation for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues , and bringing to account of monies received, the authorization of commitments, on behalf of the Government, the supervision and examination of services and supplies	1. Deficiencies in obtaining supplies and services through the procurement process 2.3 2. Management weaknesses 2.6 3. Failure to confirm the balances of tender deposits. 2.12(a) 4. Deficiencies relating to the deposits charged on air cagoes 2.13

	rendered, and the prompt and correct payment therefor from public funds.	5. Failure to settle advances given on the goods taken into custody and confiscated.	2.14
		6. Lack of Audit evicence	2.18
128(1)(c)	The Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions where necessary.	1. Delays in the settlement of imprest balances.	2.15
		2. Non-maintenance of registers and books	2.17
		3. Non-compliance with Laws, Rules and Regulations	2.19.1
		4. Non-compliance with taxability	2.19.2
128(1)(d)	An adequate system of internal check for receipts, payments, and issues is maintained and tested from time to time.	1. Non-reconciliation of balances of the Advance Account.	2.9 (a)
		2. Non-reconciliation of balances of the Imprest Account.	2.10
		3. Non-reconciliation of balances of the General Deposits.	2.11
		4. Deficiencies in maintaining bank accounts	2.16
128(1)(e)	Adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment, and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of , such disposal is according to prescribed Regulations and instructions.	1. Deficiencies in recording assets.	2.4 (a)
		2. Failure to utilize the Government owned assets in optimum capacity.	2.4 (b)
		3. Failure to ensure security of the assets.	2.4 (c)
		4. Deficiencies in the utilization of vehicles.	2.4 (d)
128(1)(h)	Special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery.	Failure to recover the outstanding loan balances.	2.9 (a)

128(1)(I)	The activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transactions of public business.	Deficiencies in human resource management	2.20
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128(1)(j)	Any expenditure or commitment incurred, falls within the scope and limits of his Votes or other authorized financial provision, and covered by adequate authority.	Incurring commitments exceeding the provisions made.	2.5
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Accountability of the Government Revenue Accounting Officer in terms of Financial Regulation 128 (2)

128 (2) (a)	The estimates of Revenue are prepared completely, and as accurately as possible, for the Items of Revenue.	Existence of material variations between estimated and actual revenue.	2.8.1
128 (2) (e)	Special arrangements are made for the expeditious collection of outstanding arrears of Revenue in consultation with the Accounting Officers and departments concerned in collection.	<ol style="list-style-type: none"> 1. Outstanding Revenue 2. Loss of Revenue 3. Omission of Revenue 4. Performance of the collection of revenue. 	<ol style="list-style-type: none"> 2.8.2 2.8.3 2.8.4 2.8.5

2. Material and Significant Audit Observation

2.1 Performance

2.1.1 Planning

Even though the following matters should be incorporated in the Annual Action Plan in terms of Paragraph 03 of the Public Finance Circular No.01/2014 dated 17 February 2014, such matters had not been included in the Action Plan prepared by the Sri Lanka Customs.

- (a) The updated information on the Organizational Structure, approved cadre and actual cadre of the institute relating to the year under review.
- (b) The Activity Plan prepared in order of priority based on the annual budget estimates, the Time Line and the output/outcome of those activities.
- (c) Action Plan on Revenue Collection

- (d) Imprest Requirement Plan
- (e) Annual Procurement Plan
- (f) Internal Audit Plan

2.1.2 Failure to Discharge Functions

According to the Annual Action Plan, 37 key functions should have been discharged by the Supply Division of the Sri Lanka Customs. Despite being made provisions of Rs.35 million for 05 of the above functions, those had not been discharged. Therefore, the expected following outcome could not be achieved.

- (a) Even though provisions of Rs.10 million had been made for the purchase of laboratory equipment in accordance with the Action Plan, that provisions had not been utilized. Accordingly, high standard test results could not be achieved.
- (b) For the installation of CCTV camera system within the Supply Division, stores complex, long room and vehicle yard in terms of the Action Plan, provisions of Rs.1 million had been made. Since the relevant activity had not been carried out utilizing above provisions, it had prevented the opportunity to exercise surveillance on the probable unlawful activities. Accordingly, expected objectives could not be achieved.

2.2 Sustainable Development

While stating that the sustainable development goals as per the 2030 Agenda for Sustainable Development adopted by the United Nations were not in conformity with the functions of the Sri Lanka Customs, the Sri Lanka Customs had not drawn attention of the sustainable development goals.

2.3 Obtaining Supplies and Services through Procurement Process

For the utilization of Rs.286.98 million out of the provisions made for the Sri Lanka Customs, provisions in the Government Procurement Guidelines should have been complied with. The provisions of Rs.260.9 million made for the purchase of motor vehicles during the year under review had been entirely saved. Provisions amounting to Rs.270.94 million including provisions of Rs.8.87 million made for the construction of buildings had not been utilized. The following observations are made in this connection.

- (a) In terms of Sections 2.6.1 (a) (ii) and (iv) of the Government Procurement Guidelines, the Technical Evaluation Committee should review specifications and bidding documents relevant to the goods and grant approval thereon. Nevertheless, in the procurement relating to the purchase of Polysack bags worth Rs.3.01 million, the Technical Evaluation Committee had not reviewed the relevant specifications and bidding documents in granting approval.

- (b) In terms of Guideline 2.7.5 of the Government Procurement Guidelines, the Secretary to the Line Ministry shall appoint the Procurement Committee. Nevertheless, evidence had not been furnished to audit to confirm that the Procurement Committees had been duly appointed relating to two procurement activities totaling Rs.12.09 million.
- (c) In terms of Guideline 2.8.4 of the Government Procurement Guidelines, the Departmental Technical Evaluation Committee should comprise at least one member who is sufficiently knowledgeable on the subject and one member either from the Line Ministry or an outsider who is fully conversant with the subject of procurement. Nevertheless, action had not been taken accordingly in two instances in the appointment of Technical Evaluation Committee relating to two procurements valued at Rs.19.11 million.
- (d) In terms of Guideline 2.11.1 (c) of the Government Procurement Guidelines, a joint meeting of the Procurement Committee and the Technical Evaluation Committee shall be conducted to agree with the Procurement Time Schedule, procurement method and the type of bidding documents. Nevertheless, action had not been taken accordingly relating to the procurement of the purchase of Polysack bags valued at Rs.3.01 million.
- (e) In terms of Guideline 3.4 of the Government Procurement Guidelines, a Departmental Procurement Committee could have carried out procurements less than Rs.10 million for obtaining goods and services under the shopping method. Nevertheless, the Procurement Committee of the Department had carry out procurements totaling Rs.19.49 million in 4 instances exceeding the above limit.
- (f) In terms of Guideline 4.2.2. (a) and (b) of the Government Procurement Guidelines, a Procurement Time Schedule describing the steps of each Procurement activity in chronological order from the point of commencement until its completion should be prepared. Albeit, such time schedule had not been prepared for the purchase of 600,000 metal stamps.
- (g) The procurement relating to the purchase of bunk beds worth Rs.6.1 million had not been carried out in pursuance of the Guideline 6.3.1 of the Government Procurement Guidelines.
- (h) In relation to procurement activities totaling Rs.17.38 million carried out in 02 instances, formal agreements had not been entered into as per the Guideline 8.9.1 (b) of the Government Procurement Guidelines.

2.4 Assets Management

During course of audit test check carried out on the assets of the Sri Lanka Customs, the following deficiencies were observed.

(a) Recording of Asstes in Inventory Books

Out of 76 bunk beds issued to the sub-offices of the Customs, value of 35 bunk beds totalling Rs.2.40 million had not been recorded.

(b) Failure to Utilize Assets in Optimum Capacity

It was observed that the following assets belonging to the Sri Lanka Customs had not been used in optimum capacity.

(i) Two houses of the Sri Lanka Customs situated on Morgan Road, Slave Island had been renovated at a cost of Rs.604,319 in the year 2017. In addition, 06 beds and 12 mattresses valued at Rs.471,000 had been issued for the above two houses. Nevertheless, both houses remained idle without being utilized.

(ii) Except for 08 units out of 17 housing units of two rows belonged to the Sri Lanka Customs situated on Morgan Road, all the other houses remained insecure position by the end of the year under review.

(c) Failure to assure security of the assets.

Two persons had unlawfully constructed a house in a land belonging to the Sri Lanka Customs situated on Morgan Road with the use of cement blocks, and electricity and water supply facilities, too, had been obtained for the above house. Nevertheless, action had not been taken to evict the unauthorized occupants form that land and assure the freehold right of the public properties.

(c) Vehicle Utilization

The number of motor vehicle belonged to the Sri Lanka Customs stood at 108 by the end of the year under review and those vehicles had run for a distance totalling 1,069,807 kilometers. Sums totalling Rs.24.69 million comprising Rs.21.12 million for fuel and lubricants, vehicle servicing and repairs and Rs.3.57 million for the insurance had been spent for the above vehicles. Accordingly, the Department had spent Rs.23.08 per kilometr in respect of running various types of vehicles other than the salaries and allowances of the drivers. Out of the pool vehicles of the Sri Lanka Customs, daily running charts and monthly summary reports had not been furnished relating to 104 vehcles to the audit even by 30 June 2018 as required by Financial Regulation 1646.

2.5 Commitments and Liabilities

Incurring Commitments Exceeding the Limit of Provisions

In terms Paragraph 02 (a) of State Accounts Circular No.255/2017 dated 27 April 2017, no commitments shall be incurred exceeding the provisions made. Nevertheless, contrary to that provisions, commitments of Rs.1,135 million had been incurred exceeding the savings after the utilization of provisions of 10 Objects totaling Rs.1,093 million by Rs.42 million.

2.6 Management Weaknesses

The following observations are made.

- (a) In terms of Public Administration Circular No.03/2017 dated 19 April 2017, all Government Institutions should take action to keep records to confirm the arrival and departure of officers to and from the office by using finger scanners. Nevertheless, the Sri Lanka Customs had not complied with the above circular provisions even by the end of the year under review.
- (b) In terms of Section 18 (02) of the Customs Ordinance, legal provisions have been made to recover the deficiency when any tax has been short paid to the Sri Lanka Customs and refund the overpayments in case tax has been overcharged. Nevertheless, without being paid attention on those provisions, sums totaling Rs.320.06 million had been short levied as Value Added Tax and Economic Service Charge from 01 November 2016 to 15 June 2017. The Sri Lanka Customs had failed to recover such short levied tax and charges even by the end of the year under review.
- (c) When exports are carried out on the basis of reimportation, the Sri Lanka Customs issues certificates, free of charge. Nevertheless, Sri Lanka Customs had not introduced methodology to confirm that the goods, accessories and spare parts so exported on the basis of reimportation had been reimported properly within due period. It was observed that out of the goods exported in such 600 instances, reimportations had been carried out only in 167 instances by the end of the year under review. Accordingly, despite failure in reimporting the goods exported in 433 instances, proper course of action had not been taken thereon.
- (d) According to the Section 5.4 of Chapter XIX of the Establishments Code, in providing Government quarters for the officers of the Department, rent should be recovered from the salary of the officer by confirming whether the spouse is a public servant. Nevertheless, the Department had not taken action accordingly in two instances.
- (e) In taking over of houses by the Housing Development Authority, compensation of Rs.5.28 million had been granted to the Sri Lanka Customs. Without being credited that money to the Government revenue, it had been credited to the Customs Management and Compensation Fund which has no any relevance to the Government quarters.
- (f) The unclaimed moneys related to the auctions and payable to the Sri Lanka Customs from the auctions of goods carried out by the Sri Lanka Port Authority had been Rs.31.89 million according to the books of Sri Lanka Customs. Nevertheless, that

value had been Rs.218.48 million according to the books of the Sri Lanka Ports Authority. The Sri Lanka Customs had not taken action to compare those values and recognize the exact amount receivable to the Sri Lanka Customs and it had not taken action to recover the receivable amount even by the end of the year under review.

- (g) Twenty containers taken into custody by the Sri Lanka Customs in variance instances during the years 2014 and 2015 had been retained in the premises of the Port even by the end of the year under review. As a result, in handling containers by the Sri Lanka Ports Authority, space for retaining containers for 10,411 container days had been deprived of. Since the containers had been so retained over a long period of time, it had not been possible to recover the dummerages receivable to the Sri Lanka Ports Authority from the shipping agents.

2.7 Utilization of Provisions made by Parliament to Execute Activities

The particulars relating to the provisions made to the Department and utilisation and savings for the 05 years period ended 31 December 2017 are as follows.

Year	Category of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of the net provision
		Rs. Millions	Rs. Millions	Rs. Millions	
2013	Recurrent	1,496.60	1,495.58	1.02	0.07
	Capital	776.79	775.88	0.91	0.12
	Total	2,273.39	2,271.46	1.93	0.08
2014	Recurrent	1,680.68	1,659.48	21.20	1.26
	Capital	398.11	354.13	43.98	11.05
	Total	2,078.79	2,013.61	65.18	3.14
2015	Recurrent	1,870.54	1,865.92	4.62	0.25
	Capital	214.60	181.00	33.60	15.66
	Total	2,085.14	2,046.92	38.22	1.83
2016	Recurrent	1,956.00	1,892.73	63.27	3.23
	Capital	100.00	87.05	12.95	12.95
	Total	2,056.00	1,979.79	76.22	3.71
2017	Recurrent	2,116.40	2,083.25	33.15	1.57
	Capital	565.95	218.75	347.20	61.35
	Total	2,682.35	2,302.00	380.35	14.18

The following observations are made on the savings of the provisions made for the year under review.

- (a) In order to purchase 06 patrol vessels for the re-establishment of Marine Division functioned under the Preventive Division of the Sri Lanka Customs, provisions of Rs.250 million had been made by the budget proposals, 2017. Nevertheless, as a

result of failure to carry out those activities even by the end of the year under review, 61.22 per cent of the capital provisions made had been saved.

- (b) The total provisions of Rs.261 million made for 3 Objects had been entirely saved without being used for any purpose.
- (c) Since overprovisions totaling Rs.415 million had been made for 8 Objects, a sum of Rs.314 million of the above provisions only had been used by the end of the year under review. Accordingly, provisions ranging from 6 per cent to 63 per cent of the total provisions made had been saved.

2.8 Revenue Accounts

2.8.1 Estimated Revenue and Actual Revenue

The Sri Lanka Customs had estimated revenue totalling Rs.757,800 million for 17 Revenue Codes for the year 2017 and revenue of Rs.728,271 million had been collected under the aforesaid revenue codes during the year under review. It had been 96.10 per cent of the estimated revenue. Details appear below.

Revenue Code	As at 31 December 2017		Excess/ (Shortfall)	Excess/ (Shortfalls) as a percentage of the estimate	Collected revenue as a percentage of the estimated revenue
	Estimated Revenue	Actual Revenue			
	Rs. Millions	Rs. Millions	Rs. Millions		
10.01.01.00	158,000	136,501	(21,499)	(13.61)	86.39
10.01.02.00	30	30	0	0	100.00
10.01.04.00	100,000	102,360	2,360	2.36	102.36
10.01.05.01	57,000	56,574	(426)	(0.75)	99.25
10.01.05.02	3,000	2,980	(20)	(0.67)	99.33
10.01.06.00	-	-	-	-	-
10.01.07.00	-	-	-	-	-
10.01.08.00	70,000	71,402	1,402	2.00	102.00
10.01.99.00	-	-	-	-	-
10.02.05.01	86,000	85,956	(44)	(0.05)	99.95
10.02.05.02	430	469	39	9.07	109.07
10.02.05.03	75,000	73,983	(1,017)	(1.36)	98.64
10.02.05.04	200,000	189,740	(10,260)	(5.13)	94.87
10.02.05.05	-	-	-	-	-
10.02.05.99	6,500	6,091	(409)	(6.29)	93.71
20.03.02.17	140	218	78	55.71	155.71
20.03.03.01	1,700	1,964	264	15.53	115.53

2.8.2 Revenue in Arrears

The following observations are made in this connection.

- (a) According to the Revenue Accounts presented to Audit, revenue of Rs. 19,483.85 million remained outstanding. That outstanding revenue was applicable to a period from the year 2001 to 2017. The outstanding revenue had decreased by Rs. 1,831.96 million or 8.59 per cent in the year 2017 compared to the year 2016.
- (b) The settlement of outstanding revenue to be settled to the Sri Lanka Customs from various Government Ministries and Departments had not been successfully carried out from the head of expenditure of those Ministries and Departments. As a result, the revenue in arrears relating to following Revenue Codes had continued to remain outstanding over a number of years.
 - (i) Of outstanding import duty revenue of Rs. 6,811.71 million existed as at the end of the year under review under the Revenue Code on Import Duty, any outstanding duty had not been recovered during the year under review. It had been 34.96 per cent of the total outstanding revenue of the Sri Lanka Customs. A sum of Rs. 5,105.22 million or 74.95 per cent of the above revenue in arrears had continued to exist from a period ranging from the year 2006 to 2012.
 - (ii) Revenue of Rs. 2,606.35 million remained outstanding as the Port and Air Port Development Levy by the end of the year under review. It had been 13.38 per cent of the total outstanding revenue of the Sri Lanka Customs. A sum of Rs. 2,390.07 million or 92 per cent of the outstanding Ports and Air Ports Development Levy had continued to exist from a period ranging from the year 2006 to 2012.
 - (iii) Of total outstanding revenue as at the end of the year under review, a sum of Rs. 1,418.20 million or 7.28 per cent had represented the Import Cess. Revenue of Rs. 1,336.11 million had continued to remain outstanding within a period ranging from the year 2006 to 2012.
 - (iv) Out of the revenue of the Regional Infrastructure Development Levy abolished in the year 2011, a sum of Rs. 42.43 million remained outstanding as at 31 December 2011. A sum of Rs. 9.03 million only had been recovered from the above sum in the year 2016, whereas the balance sum of Rs. 33.40 million had not been recovered even by the end of the year under review. That outstanding amount had continued to exist over a period ranging from the year 2006 to 2012.
 - (v) Revenue of Rs. 3,598.06 million remained outstanding as the Special Commodity Levy by the end of the year under review. Out of the above outstanding revenue, a sum of Rs. 15.13 million had continued to exist over a period ranging from the year 2006 to 2012.

- (vi) It had been reported that revenue of Rs.89.26 million out of the Excise Duty on Liquor remained outstanding even by 31 December 2016. Nevertheless, Excise Duty on Liquor amounting to Rs.29.38 million recoverable from a company had not been included in that report on outstanding revenue. As the above outstanding revenue had been included in the list of outstanding revenue of the year under review, total outstanding revenue had increased up to Rs.118.64 million.
- (vii) The Excise Duty on Petroleum Products had increased by Rs. 1,859.19 million or 32.57 per cent in the year under review compared to the preceding year. It had represented 19.75 per cent of the total outstanding revenue of the Sri Lanka Customs.
- (viii) Out of the total tax revenue in outstanding, a sum of Rs. 1,047.63 million or 5.37 per cent represented the outstanding revenue from Excise Duty on Motor Vehicles. A sum of Rs. 240.83 million of the above revenue had continued to remain outstanding over a period from 2006 to 2012.

2.8.3 Loss of Revenue

Under the Value Added Tax No.7 of 2012, a tax of Rs.25 should have been levied upon each unit of garments supplied to the local market by the companies registered with the Board of Investment of Sri Lanka. The above tax process had been revised as Rs.75 per unit with effect from 01 November 2016 by the Value Added (Amendment) Act, No.20 of 2016. Nevertheless, the Sri Lanka Customs had, under the Departmental Order No.116, delayed the implementation of such provisions up to 14 June 2017, thus depriving of revenue amounting to Rs.166.59 million to the Government.

2.8.4 Omission of Revenue

Outstanding revenue totaling Rs.570.10 million as at the end of the year under review remained under the revenue code relevant to the Fines and Confiscations had not been revealed by the Revenue Account.

2.8.5 Performance in the Collection of Revenue

The following observations are made in respect of the collection of revenue by the Sri Lanka Customs as per the annual budget estimate, 2017.

- (a) The Sri Lanka Customs had collected revenue of Rs. 728,271 million under 17 revenue codes during the year under review. Revenue of Rs. 699,872 million had been collected under 13 revenue codes in the preceding year and as compared with the preceding year, revenue had increased by Rs. 28,399 million or 4.06 per cent during the year under review. The increase in the revenue under the revenue codes pertaining to Excise Duty on Liquor, Others Excise Duty, Excise Duty on Petroleum, charges upon local sale of garments and Special Commodity Levy had contributed to increase in the revenue collection than that of collected in the preceding year.

50.00	49.84	42.00	43.04	310.00	198.34
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The following observations are made in this connection.

(a) Recovery of Outstanding Loan Balances

In terms of reconciliation statements presented to Audit, the outstanding balances except for the loan balances of the officers left on transfers had totaled Rs.5.23 million by the end of the year under review. Even though those outstanding balances had been brought forward from 01 years to 4 years, Sri Lanka Customs had failed to recover such balances.

(b) Non-reconciliation

Total of the summary of individual balances classification as at the end of the year under review amounted to Rs. 201,449,097 and that balance was Rs. 201,512,106 according to the Control Account. Accordingly, a difference of Rs.63,009 was observed as at that date.

2.10 Imprest Account

A difference of Rs.1.11 million was observed between the Departmental books and Treasury printouts as at 31 December 2017.

2.11 General Deposit Account

The opening balance of the temporary deposit account maintained relating to the statutory payments amounted to Rs. 10,829.62 million. The sub-ledger related to that period had not been furnished to Audit together with the accounts. A difference of Rs. 46.94 million was observed between the Treasury books and the Departmental books relating to the closing balance of the account presented to Audit by the end of the year under review.

2.12 Tendre Deposit Account

The following observations are made.

- (a) According to the Treasury books, the balance of the Tender Deposit Account as at 01 January 2017 amounted to Rs.135.92 million. No information whatsoever had been furnished to Audit to confirm the above balance in accordance with the Departmental books.
- (b) The receipts of the Tender Deposit Account had totaled Rs.73.41 million according to the Treasury printouts, Rs.73.07 million according to the monthly accounts abstracts, Rs.71.70 million according to the accounts presented and Rs. 71.78 million according to the deposit ledger. Comparisons had not been done on the above differences.

- (c) The payments of the Tender Deposit Account had totaled Rs.129.08 million according to the Treasury printouts, Rs.127.48 million according to the accounts presented and Rs. 60.65 million according to the ledger. The value had not been correctly accounted by comparig above differences.
- (d) Tender deposits totaling Rs.37.31 million older than 02 years and not presented for payments as at 31 December 2017 had not been credited to the Government Revenue after conducting a formal inquiry.

2.13 Deposit Account for Goods Carried by Air Travel Passengers

The following observations are made.

- (a) Detailed schedules for Rs.7.16 million and Rs.8.65 million stated as the opening balance and closing balance of the special deposit account maintained relating to the charges recovered for the goods carried by air travel passengers had not been presented.
- (b) Sums totalling Rs.194,612 received relating to the Account had not been recorded in the Deposit Ledger maintained in the Accounts Division. Nevethless, according to the Airport Deposit Register, that money had been repaid on the same date of their deposit.
- (c) In terms of Financial Regulation 206, when making withdrawal from the deposits, relevant requisitions should be certified by two Staff Grade officers. Nevtrtheless, sums totalling Rs. 726,139 had been released in 12 instances only under the signature of the Deputy Director of Customs.
- (d) Deposits totaling Rs.2.26 million had been released from the deposit accounts in 24 instances without requisitions certified by two officers in the Staff Grade. The date of releasing those deposits had not been indicated in the deposit register.

2.14 Expenses on Goods Seized and Confiscated Advance Account

The following observations are made.

- (a) Advance totalling Rs.24.97 million granted in 1,533 instances from the year 2001 to 2016 had not been settled even by the end of the year under review. It had been failed to submit documents in support of those balances to Audit.
- (b) Advances totalling Rs.771,356 granted for 17 instances of investigations had not been settled even by the end of the year under review although financial rewards had been paid on completion of such investigations.
- (c) Out of advances totalling Rs. 726,585 granted in 7 instances of investigations , a sum of Rs.261,345 only had been settled by 31 December 2017.

2.15 Delay in Settling Imprest Balances

Although it had been stated that the Sri Lanka Customs had balanced and closed cash books at 24 hours on 29 December 2017, action had been taken to remit the cash balance of Rs.1.11 million remained as at that date to the Treasury on 16 January 2018.

2.16 Operating Bank Accounts

The following observations are made.

- (a) According to the bank reconciliation statement prepared as at 31 December 2017, sums totalling Rs.7.48 million had been shown as unrealized deposits. Out of which, a sum of Rs.4.17 million had continued to exist over a period of 06 years, whereas action in terms of Financial Regulations 189 and 486 had not been taken thereon even by the end of the year under review.
- (b) According to the bank reconciliation statement prepared as at 31 December 2017, the unidentified payments totaled to Rs.166,662 and that payment contained 02 balances totalling Rs.151,824 relevant to the year 2015. Nevertheless, action had not been taken to recognize and settle those payments.

2.17 Non-maintenance of Registers and Books

It was revealed at the audit test check that the Department had not maintained following registers while some other registers had not been maintained in an updated manner.

Type of Register	Relevant Register	Observations
Record of Losses	Financial Regulation 110	Not maintained
Register of Fixed Assets	Treasury Circular No.842 dated 19 December 1978.	Not maintained in an updated manner.

2.18 Lack of Evidence for Audit

Eight vouchers worth Rs.861,986 which had not been dealt with in terms of Financial Regulation 272 (2) had been misplaced.

2.19 Non-compliance

2.19.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliances with the provisions in Laws, Rules, Regulations observed during the course of audit test cheks are analyzed below.

Reference to Laws, Rules, Regulations, etc.	Value Rs.	Non-compliance
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka		
(i) Section 6.1 of Chapter XIX	-	The period of tenancy in the quarters had been limited to 05 years.
(ii) Section 6.1 (b) of Chapter XIX	586,500	Contrary to the provisions, two officers had obtained monthly rentals for quarters from the Government.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(iv) Financial Regulations 565 (1) 4	10,829,621,083	Opening balances had not been stated in the Deposit Ledgers.
(vi) Financial Regulations 565 (5)		Although a monthly abstract statement of deposits in Form General 71 must be sent to Audit before the end of the following month, it had not been so done.
(c) Public Administration Circular		
Circular No.03/2017 dated 19 April 2017		Even though finger scaners should be used to record arrival and departure of the staff of all the Public institutions, Sri Lanka Customs had not taken action accordingly.
(d) State Accounts Circular		

Sections 4.2 and 4.3 (2) of the 2,003,201
State Accounts Circular
No.209/2010 dated 12 July 2010.

According to the Circular, although a difference of Rs. 2.00 million had been identified between the deposit balance as per the Departmental books and the treasury proutouts, necessary steps had not been taken even as at 31 May 2018 to compare and correct the above difference.

(e) Other Circulars

Departmental Circular No.696
(DOPL)

- (i) The duty and other taxes pertaining to the items which are temporary imported to the country are determined by the Superintendent of Customs as per the bill/ assessed value of the item, and a value equivalent to that duty should be retained as the deposit. Nevertheless, an additional sum of 10 per cent apart from the relevant duty had been retained as the deposits in certain inatances contrary to the above provisions.
- (ii) Although it had been stated that a separate ledger should be updated pertaining to the deposit and withdrawal of money of the passengers who arrive in this country, no seperale ledger had been so updated in that respect.

2.19.2 Non-compliance with tax requirements

The following observations are made.

- (a) According to the Economic Service Charge (Ammedment) Act, No.7 of 2017, an economic service charge of 0.5 per cent should be recovered relating to the vehicles impordred from 01 April 2017. The Department of Fiscal Policy had informed the Sri Lanka Customs on 15 June 2017 to recover the economic service charges. Accordingly, recovery of such charges had been commenced after a delay of 76 days, thus depriving of tax income of Rs.153.48 million from 17,142 motor vehicles imported from 01 April 2017 to 15 June 2017.

- (b) Thirty three Mazda Rx8 (1300 CC) petrol motor vehicles older than 03 years, which are required to be imported under the Customs Classification No.8703.22.69, had been imported under Classification No.8703.90.99, thus depriving of Customs duty of Rs.114.6 million.

2.20 Human Resource Management

Approved Cadre, Actual Cadre, and Expenditure on Personnel Emoluments

Particulars on the approved, actual, and vacant cadre as at 31 December 2017 were as follows. The Department had spent a sum of Rs. 1,348 million in the year under review on personnel emoluments. Accordingly, the per capita expenditure had been Rs.307,642.

	Category of Employees	of Approved Cadre -----	Actual Cadre -----	No. of Vacancies -----
(i)	Senior Level	329	296	33
(ii)	Tertiary Level	1152	777	375
(iii)	Secondary Level	987	696	291
(iv)	Primary Level	505	422	83
(v)	Casual/Contract	2973	2191	782
	Total	5946	4382	1564

The following observations are made in this connection.

- (a) Although the imported goods account for a substantial contribution for the Government revenue, Sri Lanka Customs had not employed an adequate number of officers to carry out proper and adequate examine on the containers with imported goods.
- (b) A detailed register with regard to the number of officers attached to each Divisions of the Sri Lanka Customs had not been updated either by the Human Resource Branch or the Administration Branch. Accordingly, no evidence had been furnished to Audit to establish whether the officers had been attached to each Divisions in keeping with the requirements.