

## **Report of the Auditor General on Head 247 – Sri Lanka Customs – Year 2014**

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Paragraphs 1 and 2 of this Report contain the general information on the Accounts of the Department and the Audit Observations on the Head appear in paragraph 3.

### **1. Scope of Audit**

The audit of the Appropriation Account, the Revenue Accounts and Reconciliation Statement including the financial records, reconciliation statements, books, registers and other records of the Sri Lanka Customs for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154(1) of the Constitution in 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 20 November 2015. 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 limitation of staff, other resources and time available to me.

### **1.2 Responsibility of the Chief Accounting Officer and the 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 Sri Lanka Customs amounted to Rs.2,079 million and out of that a sum of Rs.2,014 million had been utilized by the end of the year under review. Accordingly, a sum of Rs.65 million or 3 per cent of the net provision of the Department had been saved. Details appear below.

Expenditure	As at 31 December 2014			Savings as a Percentage of Net Provision
	Net Provision	Utilisation	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	1,680.69	1,659.49	21.20	1.26
Capital	398.11	354.14	43.97	11.05
<b>Total</b>	<b>2,078.80</b>	<b>2,013.63</b>	<b>65.17</b>	<b>3.13</b>

### 2.2 Revenue Accounts

#### Estimated and Actual Revenue

Sri Lanka Customs had estimated revenue totalling Rs.453,120 million under 12 Revenue Codes for the year 2014 and Revenue amounting to Rs.398,617 million had been collected during the year under review. Accordingly, 88 per cent of the estimated Revenue had been collected. Details appear below.

Revenue Accounting Officer	Revenue Code	Revised Estimate of Revenue	Actual Revenue	Under-Collection / Over-collection	Percent age
		Rs.Millions	Rs.Millions	Rs.Millions	
Director General of Customs	10.01.01.00	85,000.00	77,726.31	(7,273.69)	91
- do -	10.01.02.00	25.00	24.08	(0.92)	96
- do -	10.01.04.00	80,000.00	68,646.23	(11,353.77)	86
- do -	10.01.05.01	40,000.00	35,622.38	(4,377.62)	89
- do -	10.01.05.02	5,000.00	3,084.68	(1,915.32)	62
- do -	10.01.08.00	65,000.00	47,952.91	(17,047.09)	74
- do -	10.02.05.01	61,000.00	57,204.26	(3,795.74)	94
- do -	10.02.05.02	0.00	12.12	12.12	
- do -	10.02.05.03	40,000.00	28,732.33	(11,267.67)	72
- do -	10.02.05.04	70,000.00	76,435.13	6,435.13	109
- do -	10.02.05.99	7,000.00	3,087.14	(3,912.86)	44
- do -	20.03.02.17	95.00	89.28	(5.72)	94
<b>Total</b>		<b>453,120.00</b>	<b>398,616.85</b>	<b>(54,503.15)</b>	<b>12</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 of the Sri Lanka Customs and the actual amounts are given below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
-----	-----	-----	-----	-----	-----	-----
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
24701	46.00	25.47	35.00	43.84	300.00	208.45

### 2.3.2 Non-commercial Advance Accounts

Sri Lanka Customs had maintained a Non-commercial Advance Account.

#### Limits Authorised by Parliament

The limits authorized by Parliament for the Non-commercial Advance Account maintained by Sri Lanka Customs and the actual amounts are given below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
-----	-----	-----	-----	-----	-----	-----
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
24702	10.00	8.08	2.00	4.43	20.00	24.62

### 2.4 Imprest Account

The balance of the Imprest Account of Sri Lanka Customs as at 31 December 2014 amounted to Rs.3.31 million.

### 2.5 General Deposit Accounts

The balances of the General Deposit Accounts of the Sri Lanka Customs as at 31 December 2014 totalled Rs.9,295.81 million. Details appear below.

Name of Deposit	Deposit Account Number	Balance as at 31 December 2014
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		Rs. Millions
Sundry Deposits	6000/0000/00/0015/0127/000	4,011.25
Customs Officers Management and Compensation Fund	6000/0000/00/0006/0061/000	4,167.98
Customs Officers Rewards Fund	6000/0000/00/0006/0062/000	1,116.58
Total		----- 9,295.81 =====

## 2.6 Audit Observations

According to the financial records and books as at 31 December 2014 the Appropriation Account, the Revenue Accounts, the Non-commercial Advance Account and the Reconciliation Statement of the Sri Lanka Customs had been prepared satisfactorily subject to the observations appearing in the Management Audit Report referred to in paragraph 1.1. The material and important Audit Observations appearing in that Management Audit Report appear in paragraph 3 below.

### 3. Head 247 – Sri Lanka Customs

#### 3.1 Presentation of Accounts

The Sri Lanka Customs had not presented the following Accounts to audit by 31 March 2015.

Item Number / Account Number	Name of Account	Delay from 31 March 2015
24701	Reconciliation Statement of the Advances to Public Officers Account	01 Month
6000/0000/00/0006/0033/000	Customs Overtime and Cargo Examination Fees and Customs Information and Communication Fund	} 01 Month
6000/0000/00/0006/0061/000	Customs Officers Management and Compensation Fund	
6000/0000/00/0006/0062/000	Customs Officers Reward Fund	03 Month
7000/0000/00/0247/0002/000	Expenditure on Forfeited and Confiscated Goods Advance Account	} 28 Days

#### 3.2 Non-maintenance of Registers and Books

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

Type of Registers	Relevant Regulation	Observations
(i) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002	Not updated

- |       |                                 |  |             |
|-------|---------------------------------|--|-------------|
| (ii)  | Register of Fixed Assets        | Treasury Circular No. 842 of<br>19 December 1978 | Not updated |
| (iii) | Appropriation (Votes)<br>Ledger | Financial Regulation 447                         | Not updated |

### 3.3 Lack of Evidence for Audit

Ninety four vouchers valued at Rs.108,483,557 had not been furnished to audit in terms of Financial Regulation 272 (3).

### 3.4 Appropriation Account

#### 3.4.1 Budgetary Variance

The following observations are made.

- (a) Excess provision had been made for one Object and as such, the savings, after the utilization of provisions, amounted to 70 per cent of net provision relating to that Object.
- (b) According to the National Budget Circular No. 01/2014 dated 01 January 2014, expenditure should be managed within the provisions made in the Annual Budget Estimates. Nevertheless, the Sri Lanka Customs had taken action contrary to such instructions. Details appear below.
  - (i) The estimated provision for fuel amounted to Rs.40,000,000 and a sum of Rs.39,477,893 out of that had been utilized. In addition to that expenditure, a sum of Rs.3,993,341 had been spent from the Fuel Fund in the Customs Officers Reward Fund, thereby preventing the detection of an excess in the provision.
  - (ii) The estimated provision for the Object for Electricity and Water amounted to Rs.140,000,000 and a sum of Rs.139,999,063 out of that had been utilized. In addition to that, the electricity expenditure of the Customs Rest Room at Katunayaka Airport amounting to Rs.273,603 had been met from the Customs Officers Management and Compensation Fund, thereby preventing the detection of an excess on the provision.

- (iii) Provision amounting to Rs.7,000,000 had been made for acquisition of Furniture, Office Equipment and Machinery and a sum of Rs.6,973,427 out of that had been utilized. In addition to that expenditure, a sum of Rs.12,164,593 as well had been spent from the Customs Officers Management and Compensation Fund.
- (iv) Provision amounting to Rs.46,500,000 had been made for the Object for Stationery and Office Requisites and a sum of Rs.46,408,561 out of that had been utilized. In addition to that expenditure, a sum of Rs.8,839,849 had been spent from the Customs Officers Management and Compensation Fund.
- (c) In terms of paragraph 2.1.3 (i) of the above circular, electricity and water bills should be settled within one month from the receipt thereof. Nevertheless, a penalty for delay amounting to Rs.3,403,540 had been paid due to the failure to take action accordingly.

### **3.5 Revenue Accounts**

The function of the preparation of Revenue Estimates, collection of revenue, accounting for and presentation of accounts in respect of 12 Revenue Codes had been devolved on the Head of Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of an audit test check of those Revenue Codes.

- (a) According to the Annual Budget Estimates, the collection of Revenue amounting to Rs.453,120 under the 12 Revenue Codes had been estimated and Revenue amounting to Rs.398,617 million had been collected up to the end of the year under review. That represented 88 per cent of the estimated Revenue.
- (b) The Revenue amounting to Rs.398,617 million collected by the Sri Lanka Customs for the year under review represented an increase of Rs.35,831 million over the preceding year. The increase in the Duty on Motor vehicles, Other Duties and the Ports and Airports Development Levy had impacted on the overall



increase in the Revenue. The Revenue on those Duties had increased over the preceding year by 37.68 per cent, 22.69 per cent and 11.61 per cent respectively. Out of such increase in Revenue, a sum of Rs.20,918 million or 58.38 per cent represented Duty on Motor Vehicles collected.

- (c) The highest contribution to the Revenue Structure of the year 2014 had been made by Import Duties, Excise Duty on Motor Vehicles, Ports and Airports Development Levy, Excise Duty on Cigarettes and Special Commodities Levy and that contribution amounted to 19.5 per cent, 19.17 per cent, 17.23 per cent, 14.36 per cent and 12.03 per cent of the total State Revenue respectively.
- (d) The Excise Duty on Cigarettes for the year under review as compared with the preceding year had recorded a decrease. That decrease amounted to Rs.1,330 million or 2.27 per cent less than the preceding year.
- (e) According to the Revenue Accounts presented to Audit, the arrears of Revenue for the year 2014 amounted to Rs.16,027,833,120 and that related to periods from the year 2002 to the year 2014. The follow-up on the recovery of those arrears of revenue had been at a weak level.
- (f) The arrears of Revenue for the year 2014 as compared with the year 2013, had increased by a sum of Rs.2,801,897,010 or 21.18 per cent. Out of the arrears of Revenue, 99 per cent or Rs.15,879 million represented Import Duty, Excise Duty on Petroleum, Ports and Airports Development Levy. Import Cess Duty Excise Duty on Motor Vehicles.
- (g) Out of the arrears of Excise Duty on Petroleum amounting to Rs.4,107,052,583 and the penalty amounting to Rs.809,372,564 as at 31 December 2014 the amounts recoverable as at 30 June 2015 as arrears of Excise Duty on Petroleum and the penalty amounted to Rs.2,037,095,057 and Rs.319,573,717 respectively.

- (h) Even though the arrears of Rs.200,023,755 Excise Duty on Liquor and the penalty payable by two companies had been existing from the year 2002 the Department had failed to recover the arrears even by 31 December 2014 despite the legal steps taken for the recovery of the money.
- (i) The arrears of Excise Duty on motor vehicles had accumulated from the year 2008 due to the release of the motor vehicles to the Government institutions on deferred recovery of duty with the approval of the General Treasury and the balance outstanding as at 31 December 2014 amounted to Rs.1,155,858,936.
- (j) The arrears of Excise Duty Revenue had increased continuously from the year 2011 to the year 2014 and the increase in the year 2014 as compared with the year 2013 had been 75 per cent while the increase as compared with the year 2011 had been 307 per cent.
- (k) Out of the institutions against which cases for the for the recovery of arrears of Excise Duty had been filed from the year 1989 to the year 1995, arrears of Excise Duty amounting to Rs.30,418,421 and penalty amounting to Rs.16,566,261 had been recoverable from 208 companies as at 31 October 2015. That included 76 institutions from which arrears of Excise Duty Revenue less than Rs.10,000 was receivable.
- (l) The Half Yearly Statement of Arrears of Revenue for 12 Revenue Codes in respect of the year 2014 had not been prepared in terms f Financial Regulation 128(2).
- (m) The deficiencies observed in the Revenue Collection Process in operation in the Sri Lanka Customs were brought to the notice of the Director General of Customs. Several of those are given below.

- (i) Even though 192,848 Customs Entries relating to the imported containers had been furnished in the year under review inly 22,728 Entries out of that or 11.78 per cent had been subjected to proper examination process and 88.22 per cent had been released without being examined. Out of 175,062 Customs Entries in the preceding year, 27,222 Entries or 15.5 per cent had been released after carrying out proper examinations. Even though the number of Customs Entries for the year under review had exceeded that of the preceding year by 17,786, the number of containers subjected to a proper examination had been 22,728 or 11.78 per cent. The possibility of releasing imports contrary to the provisions in the Customs Ordinance cannot be ruled out in audit.
- (ii) The determination of the nature of the 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 experienced and the historical information of the importer. But an information system on the identification of the history and offences of the importers had not been installed in the Screening Division. As such it was observed that the examination methodology is determined at the discretion of the officers.
- (iii) The Revenue collected by the Customs Branch located in the Passenger Terminal of the Katunayaka Bandaranaike International Airport in the year 2013 amounting to Rs.498,370,685 had decreased by 7.38 per cent to Rs.461,589,939 in the year 2014.
- (iv) According to the audit examinations of 06 passengers carried out in the year 2014, it was revealed that they had previously made 391 visits and had brought in goods of commercial nature valued at Rs.21,383,250 and paid duty and penalty thereon amounting to Rs.6,488,782 and Rs.10,742,625 respectively. Even though the objective of the Katunayaka Bandaranaike International Airport is the supply of services to the incoming and outgoing passengers, it was observed that many passengers use the Airport to bring goods of commercial nature to Sri Lanka.

- (v) The average daily arrival and departure of passengers to and from the Mattala Rajapaksa International Airport in the year had been 57 and 59 respectively in the year 2013 and the average daily arrival and departure of passengers in the year 2014 had been 45 and 55 respectively. The revenue collected in the year 2013 amounted to Rs.23,019,686 while that had decreased by 27 per cent to Rs.16,695,478 in the year 2014.
- (vi) Two vessels had been attached for the preventive work of Customs Preventive Office of the Port of Trincomalee and out of those the fibre glass patrol vessel had been removed from use and left on the beach. The vessel had been decaying. The other patrol vessel of C-22 class had been removed from use after 30 June 2013 and left idling in the Customs Preventive Office premises. A sum of Rs.92,780 had been spent on 18 February 2013 for carrying out repairs to the vessel. Due to the failure to attach Drivers and Laskars for the sea patrol duties for preventive action had not been done at a satisfactory level even by 22 October 2015.
- (vii) Even though 135 institutions had been registered with the Excise Duty Division by the year 2015 for the payment of Excise Duty and only 38 institutions had been in operation as at 22 October 2015 for payment of the Duty. The other files had been finalized and closed from time to time due to the removal of the Excise Duty. From the Ceylon Tobacco Company and the Ceylon Petroleum Corporation, the total Duty collected from the other institutions paying the Excise Duty, represented even less than 3.4 per cent of the total Excise Duty Revenue. Nevertheless, the Excise Duty Division of Sri Lanka Customs had not taken adequate courses of action in collaboration with the Department of Register General of Companies and the Divisional Secretariats to ascertain whether there are any other producers of goods which are subject to the payment of Excise Duty.

- (viii) A Motor Vehicle Assembly Company subject to the Excise Duty had been allowed the Excise Duty rebate of Rs.7,424,688,775 on 5,057 motor vehicles of factory price of Rs.8,533,631,500 based on value addition of 30 per cent of the factory price. Accordingly, the duty rebate of 30 per cent on local value addition on the factory price amounting to Rs.2,566,089,450 amounted to 86.8 per cent of the factory price or Rs.7,424,688,775.
- (ix) As a Motor Vehicle Assembly Company had failed to confirm the local cost contribution made to 410 motor vehicles for which the Duty Rebate was expected, the Courts had decided that the company should pay the Excise Duty. Nevertheless, the Excise Duty on 46 out of the 410 motor vehicles had not been recovered up to date. Even though the motor vehicles could be registered with the Department of Motor Traffic only after the payment of the Excise Duty, those 46 motor vehicles had not been registered with the Department of Motor Traffic even by 31 December 2014 and in view of the possibility of the purchasers of those motor vehicles using of those motor vehicles fraudulently and the elapse of several years after the sale of those motor vehicles in the years 2006, 2007 and 2008, any courses of action to be taken on this matter was not clear. Excise Duty amounting to Rs.9.02 million approximately remained recoverable on the 46 motor vehicles.
- (x) The following deficiencies were observed during the course of the audit of case files.
- A private institution in whose name the container No. MSKU 6074095 with a stock of hair cream and perfumes had arrived in Sri Lanka on 09 October 2012, had without clearing the cargo, made a request on 05 November 2012 for the reshipment of the container stating that it had not arrived on an order placed by the institution. According to a letter dated 11 February 2013 sent by that institution, a request had been made for reshipment or clearance on payment of Customs Duty.

The Central Investigations Division had commenced a Customs Investigation in this connection by 05 November 2012 and the Customs Valuation Division had valued the goods for Rs.19,761,606 on 21 February 2013 and assessed the Customs and other Duties thereon as Rs.10,511,749. Even the sale had been ordered by the Central Disposal Division, on a request made by the Central Disposal Division on 30 April 2013, the Valuation Division had undervalued the goods by Rs.17,609,391 to Rs.2,152,215 and sold for that value to the institution concerned, thus depriving of revenue amounting to Rs.28,121,140 to the Government.

- The Customs Central Investigation Division had commenced a Customs investigation on 19 December 2012 as an importer had not taken over the Containers No.BMOV2556654 and No.BMOV2595487 containing hair cream unloaded from the Vessel Kota Harmani on 05 November 2012 and the Customs Valuation Division had valued the imported goods at Rs.14,729,263 and assessed the duty payable thereon at Rs.12,823,823.

Even though the institution which refused to clear the goods had made a request for clearing the goods on 20 February 2013 on the payment of the full amount of duty such request had not been allowed. Subsequent to the Customs investigation, order had been made on 28 March 2013 to confiscate the imported goods. The stock of goods valued at Rs.14,729,263 had been undervalued by Rs.9,223,886 to Rs.5,505,377 on 09 April 2013 and action had been taken for the release of the goods to the same institution which refused earlier to take over the goods, for a sum of Rs.6,474,324 inclusive of duties, thus depriving of revenue amounting to Rs.21,078,762 to the Government.

- (xi) The Minister of Finance and Planning had, by a Notification published in the Gazette Extraordinary No.1875/30 of 14 August 2014, increased the special trade levy of Rs.5 per kilogram on potatoes imported to Sri Lanka under Goods Classification No. 0701.90 to Rs.15 with effect from 15 August 2014. Nevertheless, the Officers of Sri Lanka Customs had taken action for the recovery of the special Trade Levy at Rs.5 per kilogramme from the importers on 1,184,320 kilogrammes brought to Sri Lanka by 4 vessels which had arrived at the Port of Colombo on 15 August 2014 and thereafter. Thus duty revenue of Rs.11,843,200 had been deprived of to the Government. The Central Investigation Decision of Sri Lanka Customs had commenced a Customs investigation in this connection.
- (xii) An examination of a container with sanitary accessories as the declared contents, shipped from India to Dubai through the Port of Colombo, carried out by the Customs Officers on 09 November 2013 revealed that the container contained 6.74 metric tonnes of Sandal wood valued at Rs.33.7 million and the Preventive Division of the Sri Lanka Customs had commenced an investigation in that connection on 14 November 2013. Subsequent to the investigation, the Chief Investigation Officer had made an Order in terms of Section 37 of the Customs Ordinance and the Notification published in the Gazette Extraordinary No. 1517/19 of 03 October 2007 to confiscate the stock of timber. That order had been varied on the same day on the powers devolved in the Director General of Customs in terms of Section 163 of the Customs Ordinance and released the timber by converting the order to a mitigated fine of Rs.5 million and permitted a person named by the Shipping Agent to export the stock of sandal wood to Hong Kong. Even though a penalty of Rs.5 million had been recovered on the following day, that is, 14 August 2014 action had not been taken to release the stock of Sandal Wood. Subsequently, the Director General of Customs had rescinded that Order and made an Order on 03 October 2014 for the refund of the Rs. 5 million fine to the person concerned. The following deficiencies were observed in that connection.

- Making and Order for the release of the stock of Sandal wood valued at Rs.33.7 million after the recovery of a fine of Rs.5 million, without making any enquiries about the person named by the Shipping Agent, either from the party dispatched the goods or the recipient party.
- The basis under which the stock of timber transported from India to Dubai, was ordered to be exported to Hong Kong after the investigation had not been revealed.
- Even though the power to revise an order made by the Director General of Customs under Section 163 of the Customs Ordinance is vested in the Minister in charge of the subject of Finance, the approval of the Minister in charge of the subject of Finance had not been obtained for the refund of the sum of Rs.5 million recovered as the fine.
- Any party who does not agree with the decision of a Customs investigation in terms of Section 154(1) of the Customs Ordinance, may file a case in a Court within one month from the date of such decision. In cases where such action had not been taken, the fine imposed and the money confiscated should, in terms of Section 153(1) of the Customs Ordinance, be paid to the Consolidated Fund, the Customs Officers Management and Compensation Fund and for the payment of rewards of the Officers by ascertaining the relevant proportions. Even though the person who was subjected to a fine after the above investigation had not filed a Court case, the fine of Rs.5 million retained in the Deposit Account, had been refunded to that person about 2 months later without the formal approval.
- As a result of the representations made by the Customs Officers that the Order made after the investigation was not correct, the Director



General of Customs had rescinded the Order and action taken to desist from release of the stock of timber and to commence another inquiry.

- (xiii) Twelve Motor Vehicles of Model BMW 730 DSE had been imported by Provincial Council Members during the period 03 January 2013 to 31 August 2014 and in every instance, the imported price of the motor vehicle, that is cost, insurance and freight had been given as U.S.\$ 45,000 in order not to exceed the limit of the permit and paid the duty. A perusal of the Web site revealed that the price of a motor vehicle of that model with the standard spare parts (CIF Value) amounted to British Pounds 45,000 approximately (U.S.\$ 74,000 approximately). According to the Sri Lanka Customs Pricing Committee Report dated 15 January 2015, the standard price had been given as EURO 42,500. As the importers had taken action to pay the duty by under valuing the motor vehicles in order to be within the maximum limit of the permit the Government had been deprived of Customs Duty amounting to Rs.352,604,621 from those 12 motor vehicles.
- (xiv) The rate of duty recoverable on the Toyota Hilux Smart Cab motor vehicles manufactured with similar features of Double Cab Model motor vehicles had been the same rate of duty charged on Single Cab motor vehicles. That as compared with the duty charged on Double Cab motor vehicles had been about Rs.1 million less per motor vehicle. Even though Sri Lanka Customs had introduced a new Goods classification number for the Toyota Hilux Smart Cab Model in the year 2014 about 3,000 of those motor vehicles had been imported by then to Sri Lanka and registered with the Department of Motor Traffic.
- (xv) An audit test check of the Super Luxury motor vehicles of high value imported under the permits issued to the public servants under the Trade, Tariff and Investment Policy Circulars No. 01/2010 of 10 December 2010 and No.01/2013 of 02 August 2013, had been undervalued to be within the maximum limit of the permit value, had been cleared on the payment of a lesser duty.

- (xvi) In the case of import of used motor vehicles the value for the purpose computing the Customs Duty is based on the invoice value of the motor vehicle or the standard value (after adjustment of depreciation, freight, insurance etc.) determined by the Sri Lanka Customs. Nevertheless, the duty on 03 Mercedes Benz cars of E 220 Model imported to Sri Lanka in the year under review had been computed on the invoice value. As such Customs Duty amounting to Rs.4,608,730 had been under recovered on 03 motor vehicles.
- (xvii) Two used BMW Motor Vehicles of M.5. Model of 4395 cylinder capacity had been imported on the Concessionary Motor Vehicle Import Licence entitled to Public Officers under the Cusdecs No. CBMV15839 and CBMV5840. The invoice value of those motor vehicles had been declared as U.S.\$ 24,444.51. Based on that value, Customs Duty amounting to Rs.6,495,766 at the rate of Rs.3,247,383 per motor vehicles had been recovered. There was no evidence that the Sri Lanka Customs had determined a fixed value for these motor vehicle models and as compared with the value of imported motor vehicles of similar models, a fixed value exceeding U.S.\$ 35,000 should have been determined for these motor vehicles. According to the computation of Customs Duty based on such fixed value, the duty recoverable on each motor vehicle amounted to Rs.7,100,468. Accordingly, the Government had been deprived of Customs Duty of Rs.7,705,170 from the two motor vehicles. Even though the Customs Officers stated that the duty was computed on the invoiced value in consideration of the appeals made by the importers, the appeals made by the importers had not been furnished to audit even by 31 October 2015.
- (xviii) Audit test checks revealed that out of the motor vehicles imported under the Customs Classification No. 8705 as special purposes motor vehicles during the period 01 November 2013 to 16 May 2014, twenty two motor vehicles as dual purpose vans, 56 motor vehicles as motor lorries and 358

motor vehicles including Concrete Mixer Lorries imported during the period from the year 2010 to 31 October 2013 for specialized purposes had been registered as Motor lorries by the Department of Motor Traffic. Accordingly, it was possible to deviate from the specialized purposes of those motor vehicles and use those as normal trucks or lorries. Certain private institutions had fraudulently imported vehicles in such manner with a view to paying lesser duty ranging from Rs.1.5 million to Rs.3 million by importing normal vans as special purposes vehicles and reducing the Customs Duty ranging from Rs.0.5 million to Rs.2 million payable in importing as a normal truck. Accordingly, the Government had been deprived of a minimum of Customs Duty Revenue amounting to Rs.243 million from 22 vans and 414 trucks imported from the year 2010 to 16 May 2014.

(xix) The local conversion vehicles imported for transport of goods under Customs Classification Numbers entitled for lesser customs Duty, to luxury motor vehicles for the transport of passengers had resulted in the loss of large amounts as Customs Duty Revenue to the Government. The following deficiencies in this connection were observed.

- An audit examination of the notices on the sale of motor vehicles published in the Internet Web sites and the motor vehicles running on the roads revealed that 13 vehicles registered as Dual Purpose Single Cabs under the English Letter Series 'PP' to 'PY' , 04 vehicles registered as motor lorries (including Single Cabs) under the English Letter Series "L" and 04 vehicles registered as Double Cabs and Vans under the English Letter Series "PA" to "PM" had been subsequently converted to Motor cars. Had those vehicles been considered as motor cars at the time of import, revenue amounting to Rs.91,460,000 could have been earned as Customs Duty from 16 of the 21 vehicles.

- A large number of the latest luxury motor vehicles had been registered in the Department of Motor Traffic under the very old Number Series including registration numbers 24,25,31,32,40,50,51,64 and 65 while a large number of latest luxury motor vehicles converted to new models and originally registered under the above Series and the “E” Series obtained later had also been registered.
- A private company which has not been registered under Section 3 of the Excise Duty (Special Provisions) Act, No. 13 of 1989 as referred to in Section 14 of the Act, is running a business of converting Single Cabs and Double Cabs to five door Station Wagons (Land Rover Defender Jeeps) and is charging Rs.1.4 million to Rs.2.4 million for such conversions.
- It was observed that a large number of motor vehicles fraudulently converted by that company are available in the country. Running a business for fraudulent conversion of motor vehicle by giving publicity in the Internet Web Sites and without obtaining registration for the payment of Excise Duty is tantamount to flouting the provisions in the Excise Duty (Special Provisions) Act.
- According to the Import and Export Control Laws and Rules the import of personal transport motor vehicle older than 02 years (under Customs Classification No. 8703) and goods transport motor vehicle older than 04 years (under Customs Classification No.8704) is prohibited. As such, the prohibition on personal transport vehicles older than 02 years had been superseded by the importation of single cab and Double Cab vehicles old up to 04 years and converting them to personal transport vehicles thereby seriously flouting the Import and Export Control Regulations. In view of the possibility of importing Jeeps, Single Cab vehicles and Double Cab vehicles old up to 04 years

and using them by converting to cars had resulted in the decrease of the Customs Duty charged on motor vehicles by the customs.

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

The following matters were observed during the course of audit test checks of the Reconciliation Statement of the Advances to Public Officers Account Item No. 24701 as at 31 December 2014.

- (a) Out of the loan balances totalling Rs.10,809,826 outstanding as at 31 December 2014, a sum of Rs.7,672,767 had not been recovered even by 31 October 2015.
- (b) Even though dates of death or retirement of officers should be noted in the Schedules, in terms of paragraph 05 of the Public Enterprises Circular No. 96 of 18 August 1994, the relevant year only had been noted.
- (c) Due to the failure to take action in terms of Section 4 of Chapter XXIV of the Establishments Code for the recovery of advance balances of the deceased and retired officers, those balances remained as non-moving balances.
- (d) The reasons for further difference of Rs.95,820 between the total of the Summary of Individual Balances Classification and the balance of the Control Account had not been explained.
- (e) The loan balances of 11 officers transferred out totalling Rs.875,306 had not been settled in terms of Financial Regulation 485(4) and paragraphs 1.1.6 and 1.1.7 of the National Budget Circular No. 118 of October 2004.
- (f) The follow-up action on the recovery of the loan balances of officers retired, deceased, interdicted and vacated post totalling Rs.5,133,031 brought forward over a long period had been at a weak level. Action in this connection had not been taken in terms of Section 4 of Chapter XXIV of the Establishments Code.

- (g) According to Sections 3.1.3 and 11.9.1 of Chapter XXIV of the Establishments Code, if the deed is not produced within 06 weeks from the date of obtaining the loan, the loan should be recovered immediately. If not so, the monthly installment should be doubled until completion of recovery and the interest should be increased by 5 per cent. But it had not been so done in 03 instances.

### 3.7 **Advance Account on Expenses on Forfeited and Confiscated Goods**

The following observations are made in this connection.

- (a) An opinion could not be expressed on the Advance Account for the year under review as in the preceding years.
- (b) The outstanding balances recoverable relating to the Advance Account totalled Rs.24,618,348 and the follow-up action on the recovery of the outstanding balances had been at a weak level.
- (c) Three hundred and thirty seven balances amounting to Rs.2,502,415 shown as additional receipts from the year 2009 to the year 2014 without taking action to settle the outstanding balances (unsettled advances) had been credited to State Revenue.
- (d) During the course of an investigation, for which an advance has been obtained, if it is found that there are no Customs offences related to such case, a methodology was not available to cover the advance obtained at the time of ceasing the Customs investigation.
- (e) Deficiencies such as the failure to maintain records and registers in the proper manner and inadequacy of supervision existed.

### **3.8 Good Governance and Accountability**

#### **3.8.1 Annual Action Plan**

Even though Sri Lanka Customs should prepare an Annual Action Plan in terms of Public Finance Circular No. 01/2014 dated 17 February 2014, an Action Plan for the year under review had not been prepared.

#### **3.8.2 Annual Procurement Plan**

The Annual Procurement Plan in terms of the National Budget Circular No. 128 of 24 March 2006 had been furnished only on 09 July 2014.

#### **3.8.3 Audit and Management Committee**

Even though the Audit and Management Committee should meet at last once every quarter, only 02 meetings had been held in the year 2014.

### **3.9 Assets Management**

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

#### **(a) Recording of Assets**

The following observations are made.

- (i) The computers and computer accessories valued at Rs.78,683,345 and Rs.5,031,062 purchased in the years 2013 and 2014 respectively from the funds of the Customs Officers Management and Compensation Fund had not been recorded in a register.
- (ii) The fixed assets valued at Rs.84,656,355 and Rs.7,133,531 purchased in the years 2013 and 2014 respectively from the funds of the Customs Officers Management and Compensations Fund had not been recorded in the Register of Fixed Assets.

- (iii) Even though the provisions in the Treasury Circular No. 842 of 19 December 1978 and paragraphs 02 and 03 of the Management Audit Circular No. DMA/2009(02) dated 01 September 2009 require that the fixed assets should be correctly recorded, fixed assets totalling Rs.810,724,986 purchased in the years 2013 and 2014 had not been recorded in the Register of Fixed Assets.
- (iv) Even though Financial Regulation 802(3) and paragraph 4.2 of the Management Audit Circular No. DMA/2009/(02) dated 01 September 2009 require that all information of motor vehicles should be recorded in the Register of Fixed Assets for Motor Vehicles, it had not been so done.

**(b) Idle and Underutilised Assets**

The following observations are made.

- (i) Out of the 4 Scanners for the examination of containers purchased in the year 2005 from a loan of U.S.\$ 15,600,000 obtained from the Bank of Ceylon at an annual interest rate of 7.03 per cent, 02 scanners remained idle while the other two scanners had been underutilized.
- (ii) Seven finger print machined purchased by the Sri Lanka Customs at a cost of Rs.859,500 had not been used up to date. The refusal of the Customs Officers to use the finger print machines and the non-installation of the machines after the opening of the New Customs Building had been the main reasons for the situation.

**(c) Conduct of Annual Boards of Survey**

The following observations are made.

- (i) Even though the Reports of the Board of Survey for the year 2014 should have been furnished to audit before 17 March 2015 in terms of paragraph 3.6 of the Public Finance Circular No. 2/2014 of 17 October 2014, it had not been so done.



- (ii) The Reports of Boards of Survey of 54 Divisions for the year 2013 had not been furnished to audit even by 30 October 2015.
- (iii) According to paragraph 05 of the Public Finance Circular No. 2/2014 dated 17 October 2014, the particulars of purchase of goods and the disposal of assets in the financial year should be recorded in accordance with the Annexes of the Public Finance Circular No. 422 of 30 July 2006 and that report should be forwarded to the Director General of Public Finance before 31 March of the financial year. But evidence in respect of forwarding had not been furnished.

**(d) Assets given to External Parties**

It was observed that lands belonging to the Sri Lanka Customs are being used by external parties without the approval of the Customs. Several such instances are given below.

- (i) A block of land 36' x 15' in extent had been given to the Department of Coast Conservation without legal transfer made by the Sri Lanka Customs.
- (ii) Certain lands belonging to the Sri Lanka Customs situated in the North and East had been given for use by the Three Forces without making a legal transfer.

**(e) Unsettled Liabilities**

Out of the liabilities of the Sri Lanka Customs as at 31 December 2014 amounting to Rs.74,098,634 , a sum of Rs.7,900,000 had not been settled even by 31 October 2015.

The following observations are made in this connection.

- (i) Even though the liabilities to be settled by the end of the year 2014 in terms of paragraph 3.11 of the State Accounts Circular No. 238/2014 dated 04 November 2014 had been shown as Rs.74,098,634 in addition to

those liabilities for the year 2014, further liabilities amounting to Rs.26,415,680 had been settled in the year 2015.

- (ii) Payments relating to the year 2015 amounting to Rs.327,567 had been shown in D.G.S.A. 8(1) Statement of Liabilities as liabilities that existed as at 31 December 2014.

### 3.10 Non-compliances

#### Non-compliances with Laws, Rules and Regulation

Non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analysed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs.	-----
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka		
-----		
(i) Section 1.7 of Chapter XII	-	Even though a Register of Leave should be maintained in Form General 190, certain Divisions had not maintained such register.
(ii) Section 22.4 of Chapter XII	-	Even though monthly reports on no-pay leave should be made to the Auditor General on Form General 96, it had not been so made.
(iii) Section 3.1 of Chapter XV	-	Officers on probation should not be sent abroad for studies or training unless for

- obtaining a certain qualification which according to the conditions of appointment should be obtained.
- Nevertheless, action contrary to that had been taken in connection with one officer.
- (iv) Section 1.3 of Chapter XXVIII - The Attendance Register of the Customs Office at the Passenger Terminal of the Katunayaka International Airport had not been supervised by a Staff Officer.
- (v) Section 1.3 of Chapter LVIII - Even though every party concerned should ensure that the preliminary investigations are finalized expeditiously, there were instances where it had not been so done.
- (b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka
- 
- 
- (i) Financial Regulation 149,892 115(4) A copy of the letter of the Chief Accounting Officer authorizing the payment of claims made in respect of the preceding financial years had not been furnished to the Auditor General.
- (ii) Financial Regulation 447 - Even though the provisions made for each Object and the additional provision obtained subsequently should be recorded in the Appropriation (Votes)

- Ledger Form General 138 and certified by a Staff Officer, it had not been so done. The transfers of provisions under Financial Regulation 66 had not been recorded while the voucher number had not been recorded for payments. Out of 30 Objects, the cumulative expenditure of 22 Objects had not been recorded.
- (iii) Financial Regulation 447(1) and (4) - The liabilities incurred had not been recorded in the Appropriation (Votes) Ledger.
- (iv) Financial Regulation 272 - The payment vouchers for the year 2014 had not been bundled and kept in safe custody.
- (v) Financial Regulation 396(d) - Action in terms of the Financial Regulation had not been taken on 13 cheques issued but not presented to the Bank and lapsed.
- (c) Public Administrative Circulars  
-----  
Paragraph 02(1) of Circular No. 09/2009(1) of 16 April 2009 - A finger print machine for recording the arrival and departure of officers of the Passenger Arrival Terminal of the Katunayaka International Airport had not been installed.
- (d) Circulars of Sri Lanka Customs  
-----  
Paragraph 4 of Circular No. - Even though Register of Visits had been

01/2010 dated 19 December  
2010

maintained at the Passenger Terminal  
Office of the Katunayaka International  
Airport, only 05 entries had been made  
from June 2013 to 25 February 2015.

### 3.11 Performance

The observations on the progress of the Sri Lanka Customs according to the Annual Budget Estimates for the year 2014 given below.

#### (a) Collection of Revenue

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

Category of Tax	Tax Revenue according to Revised Estimates	2014		2013		
		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 Estimates Revenue
	Rs.Millions	Rs.Millions		Rs.Millions	Rs.Millions	
<b>Taxes on International Trade</b>						
Import Duties	85,000	77,726	91.44	82,591	74,668	90.41
Export Duties	25	24	96	20	22	110
Ports and Airports Development Levy (Imports)	80,000	68,646	85.81	61,004	61,506	100.82
Cess Levy (Imports)	40,000	35,622	89.06	37,362	33,004	88.34
Motor Vehicle Concessionary Levy	-	-	-	-	-	-
Regional	-	-	-	-	1	-

Infrastructure Development Levy						
Cess Levy (Exports)	5,000	3,084	61.68	3,120	3,087	98.94
Special Commodity Levy	65,000	47,952	73.77	50,106	46,705	93.21
<b>Excise Duty</b>						
-----						
Cigarettes	61,000	57,204	93.78	58,222	58,534	100.54
Liquor	-	12	-	-	0.1	-
Petroleum Products	40,000	28,732	71.83	35,849	27,131	75.68
Motor Vehicles	70,000	76,435	109.19	71,906	55,517	77.21
Others	7,000	3,087	44.1	5,347	2,516	47.05
Fees on Local Sale of Garments	95	89	93.68	95	91	95.79
<b>Total</b>	-----	-----		-----	-----	
	<b>453,120</b>	<b>398,616</b>	<b>87.97</b>	<b>405,622</b>	<b>262,781</b>	<b>89.44</b>
	=====	=====		=====	=====	

The following observations are made in this connection.

- (i) The Actual performance of the expected Tax Revenue according to the revised estimate for the year 2014 had decreased by 12.03 per cent while it had been 10.56 per cent in the preceding year.
- (ii) Even though Revenue exceeding Rs.50,000 million had been estimated under each of 5 Revenue Codes, the expected Revenue target had been achieved only from the Excise Duty on Motor Vehicles. The performance thereof had been 109.19 per cent of the estimated Revenue. The other Revenue Codes had not reached the expected targets.
- (iii) The overall Value Added Tax and the overall Nation Building Tax collected during the year 2014 amounted to Rs.237,915,432,907 and

Rs.44,583,121,716 respectively. Even though the Commissioner General of Inland Revenue is vested with the responsibility of Accounting for Revenue under the Value Added Tax and the Nation Building Tax, 42.99 per cent of the Value Added Tax and 53.29 per cent of the Nation Building Tax collected during the year 2014 amounting to Rs.102,281,490,518 and Rs.23,761,586,645 respectively had been collected by the Sri Lanka Customs.

### 3.12 Deficiencies in the Operation of Bank Accounts

#### Balances for Adjustment

Information revealed at an analysis of the Bank Reconciliation Statements prepared as at 31 May 2015 are given below.

Particulars of Adjustments	Age Analysis			Total
	Over 6 months less than 01 year	Over 01 year less than 03 years	Over 03 years	
	Rs.	Rs.	Rs.	
Unrealised Deposits	-	-	4,166,667	4,166,667
Cheques issued but not presented for payment	4,433,842	353,432	-	4,787,274
Unidentified Debits	3,428,598	63,024	4,166,667	7,658,289
Unidentified Credits	1,052,972	253,058	-	1,306,029

The following observations are made in this connection.

- (a) Action in terms of Financial Regulation 396(d) had not been taken on 13 cheques valued at Rs.230,882 of one Bank Current Account, issued but not presented for payment for more than 06 months.

- (b) Even though the balance of one Bank Current Account according to the Bank Statement amounted to Rs.76,261,274, that had been shown in the Bank Reconciliation Statement as Rs.76,271,274.
- (c) The correct accounting procedure had not been followed in connection with unrealized cheques totalling Rs.4,166,667 older than 03 years.
- (d) Action had not been taken even by 31 October 2015 to identify the unidentified payments totalling Rs.5,806,850.
- (e) Action had not been taken even by 31 October 2015 to identify the unidentified receipts totalling Rs.1,093,036.
- (f) The numbers of 25 cheques valued at Rs.6,886,232 included in the Statement of cheques issued but not presented for payment of the Bank Reconciliation Statement as at 31 December 2014 had not been stated.
- (g) Even though cheques should be issued in the numerical order and that they should be entered in the cash book in the numerical order, there were instances in which cheques had not been entered in the numerical order.
- (h) The voucher number of every cheque written had not been entered in the counterfoil in terms of Financial Regulation 386 (3).

### **3.13 Transactions of Contentious Nature**

Certain transaction entered into by the Sri Lanka Customs had been of contentious nature. The particulars of a transaction of that nature revealed during the course of audit test checks is given below.

Even though it had been agreed for the construction of the Customs Museum to be completed within 90 days from 14 March 2013, that is, 28 May 2013, the work had not



been completed within the agreement period. Extension of time for 599 days had been granted from time to time in 7 instances and the contract had been completed on 27 January 2015.

### **3.14 Irregular Transactions**

Certain transactions entered into by the Sri Lanka Customs had been devoid of regularity. Such an instance observed is given below.

A sum of Rs.4,887,500 paid by the Sri Lanka Customs from May to September 2009 as the service charges for the scanners transferred by the Sri Lanka Customs to the Airports and Aviation Services (Sri Lanka) Company Ltd. had not been recovered from that Company even by 31 December 2014.

### **3.15 Uneconomic Transactions**

Even though a sum of Rs.17,503,409 had been spent for carrying out repairs to 03 mobile scanners, a cost estimate thereof had not been prepared.

### **3.16 Management Weaknesses**

The following observations are made.

- (a) According to the letter No. HF/1/4/CUS/115-27 of the Deputy Secretary to the Treasury, the payment of incentive based on evaluation of performance had been approved. But, the evaluation of performance of each officer had not been done by a formal Board of Evaluation and all officers had been paid incentive for 100 per cent performance. Leave had not been correctly computed for making deductions for leave.
- (b) Even though Financial Regulation 751(1) requires that all stores received by Government Departments must be taken on charge in the Stock Book immediately upon receipt, instance of failure to do so were observed.

### 3.17 Human Resources Management

#### Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2014 had been as follows.

<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
(i) Senior Level	340	284	56
(ii) Tertiary Level	1152	720	432
(iii) Secondary Level	970	659	311
(iv) Primary Level	488	324	164
<b>Total</b>	<b>2950</b>	<b>1987</b>	<b>963</b>
	=====	=====	=====

The following observation is made.

Sri Lanka Customs had not taken action to fill 963 vacancies even by the end of the year under review.