

Head 247 – Sri Lanka Customs

1. Financial Statements

1.1 Qualified Opinion

Head 247 - The audit of the financial statements of the Sri Lanka Customs for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, the statement of financial performance for the year then ended and cash flow statement was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018. The Summary Report containing my comments and observations on the Financial Statements of the Sri Lanka Customs in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officers on 30 May 2023. Annual Detailed Management Audit Report related to the Department in terms of Section 11 (2) of the Audit Act was issued on 15 June 2023. This Report is presented to the Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Customs as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

The Accounting Officers are responsible for preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018 .

- (a) The financial statements were consistent with those of the previous year.
- (b) The recommendations made by me on the financial statements related to the previous year had been implemented.

1.6 Comment on Financial Statements

1.6.1 Accounting Deficiencies

(a) Deposits

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) There were differences between the balances shown in the statement of financial position as at 01 January 2022 and the opening balances of the ACA 4 statement related to Custom Officers' Management & Compensation Fund and Custom Officers' Reward Fund amounting to Rs.2,122,369 and Rs.11,264,393 respectively. Without identifying the reasons, those differences had been credited to the Government revenue.	I agree with the observation made.	Accounting should be done accurately and transparently after identifying the differences.
(ii) Opening balance of the withholding of deposit for goods brought by passengers account since 2011 to 2016 had been overstated by Rs.2,003,201.	Incorrectly recorded balance of Rs.2,003,201.00 in the departmental ledger of the withholding of deposit for goods brought by passengers account from 2011 to 2016 had been removed and balanced the ledger. Accounts have been prepared for the year 2022 and the schedule for the individual balances for the closing balance has been prepared.	Accounting should be made accurately after identifying the differences in the balances in the future.

(b) Property Plant & Equipment

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) Although, 06 vehicles of which the estimated assessment value was amounted to Rs.4,420,000 had been sold at Rs.11,920,200 during the year under review, value of those assets had not been removed from the accounts.	I agree with the observation made.	Value of the assets sold should be removed from the accounts.

- (ii) Although, the value of the lands as at the closing date of the year under review had been shown as Rs.4,171,150,000, those value had not been shown in the asset register maintained in the format of Form 287. Therefore, the value of the lands shown in the financial statements could not be reconciled.
- The value of the lands has been shown as Rs.4,171,150,000 in the statement of non-financial assets based on the assessment values given by the supply and services division in the year 2018.
- The value of the lands shown in the financial statements should be reconciled with that of the value shown in the asset register.

(c) **Imprest Balance**

Audit Observation	Comments of the Accounting Officer	Recommendation
Hence, the cash balance of the imprest account in transit as per the treasury books as at 31 December 2022 was Rs.196,139,682 and the cash balance in transit as per the departmental books was Rs.4,648,584,888, there was a difference amounting to Rs.4,452,445,206 as per the books	The cash balance as per the departmental books in transit of Rs.4,648,584,888 is represented by the cash balance transferred from People's Bank account to Bank of Ceylon account and the amount transferred to the Secretary to the Treasury as imprest during the year 2022.	Departmental books and treasury books should be reconciled.

(d) **Lack of Audit Evidence**

Audit Observation	Comments of the Accounting Officer	Recommendation
A total of Rs. 3,208,160,694 consisted of Rs.2,143,225,499 as salaries, wages, overtime, holiday payment and incentives from the Consolidated Fund of the Government and Rs.1,064,935,195 from the Customs Overtime, Cargo Examination fee and Information Technology Communication Fund had been paid for 2277 officers of the Sri Lanka Customs in the year 2022 and the fingerprint records, which	The attendance of the employees in the Department of Customs is recorded using the attendance register. As Custom staff engages with duty without being confined to 08 hours shift duty, practical difficulties are arisen in the use of finger print machines and instructions have been requested from the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments regarding this.	Sound internal control procedures should be followed related to the recording of attendance.

were the evidence substantiating the said expenditure, had not been submitted to the audit. In an audit inspection carried out at 04 divisions of the Customs examining the register of attendance, overtime registers and leave registers, employees had reported to duty every day including the weekends and public holidays without taking leave. Overtime allowances had been taken by these employees up to 24 hours per day and it was observed that said payments had been made without conducting a proper verification of the arrivals and departures.

2. Financial review

2.1 Revenue Management

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

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Basic Estimates and the Revised Revenue Estimates	I agree with the audit observation.	Estimates should be prepared prudently.
(i) An under variation ranging from 8 per cent to 81 per cent between the basic estimate and the revised revenue estimate in relation to 12 income codes were observed.		
(ii) Although, the difference should be calculated as a percentage of the basic revenue estimate, in showing the difference as a percentage between the basic revenue estimates and the revised revenue estimates as per ACA-1 (ii) format, in place of it, revised revenue estimate had	I agree with the audit observation.	Arrangements should be taken to follow the accurate advices in preparing the percentages.

been calculated as a percentage of the basic revenue estimate related to 12 revenue codes. Consequently, the reasons given for the difference by the entity could not be accepted.

(b) Revised Estimated Revenue and Actual Revenue

There was an under variation ranging from 05 per cent to 19 per cent between the revised estimated revenue and the actual revenue during the year under review in relation to 3 revenue codes. I agree with the audit observation. Estimates should be prepared prudently.

(c) Reconciliation with Preceding Year Revenue

In comparing the revenue of the year under review with the revenue of the preceding year, a considerable decrease was observed in relation to 07 revenue codes and it was ranging from 4 per cent to 28 per cent. I agree with the audit observation. Attention should be drawn into the methods of increasing revenue.

(d) Arrears Tax Revenue

- (i) Import tax arrears had represented Rs.23,230,293,071 or 38 per cent out of the total outstanding tax value as at 31 December 2022. Out of that, an amount of Rs. 22,714,244,813 had been prevailed even prior to the year 2019. I agree with the audit observation. Necessary measures should be taken to collect the revenue receivable to the Government without delay.
- (ii) An amount of Rs. 16,076,072,367 or 26 per cent of the outstanding tax revenue as at 31 December 2022 had represented by the special commodity levy. Out of that, a sum of Rs. 16,064,240,567 was the outstanding revenue from 2019 and even prior to that year. I agree with the audit observation. -Do-

- (iii) A sum of Rs. 10,476,732,912 or 17 per cent of the total arrears of tax revenue had represented by the port and airport development levy as at 31 December 2022 and out of that a sum of Rs.10,247,074,664 or 98 per cent had been prevailed from 2019 and even prior to that year. I agree with the audit observations. -Do-
- (iv) An amount of Rs. 6,137,991,353 or 10 per cent of the total outstanding revenue as 31 December 2022 had been represented by import Cess levy and out of that a sum of Rs.6,135,212,781 was prevailed in arrears up to the year 2019. I agree with the audit observation. Necessary measures should be taken to collect the revenue receivable to the Government without delay.
- (v) Out of the total outstanding tax revenue as at 01 January 2022 amounting to Rs.61,999,994,128, a sum of Rs.5,767,519,628 had been recovered during the year under review and it was at a lower level as 09 per cent from the total outstanding tax revenue. I agree with the audit observation. -Do-
- (vi) A sum of Rs.39,063,403,231 or 63 per cent as an outstanding amount to be recovered from the Ministry of Finance had been included in the total outstanding tax revenue amounting to Rs.61,254,145,583 as at 31 December of the year under review. I agree with the audit observations. -Do-

2.2 Expenditure Management

2.2.1 Recurrent Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Basic and Revised Expenditure Estimates</p>	<p>I agree with the audit observation.</p>	<p>Estimates should be prepared prudently.</p>
<p>There was a variation ranging from 20 per cent to 136 per cent between the basic estimates and the revised expenditure estimates related to 08 recurrent expenditure codes during the year under review. Consequently, it was observed that after reviewing the expenditures in the preceding year, forecasting of expenditure estimates accurately as much as possible should be necessary in preparing basic estimates.</p>		
<p>(b) Saving of Allocations</p>	<p>I agree with the audit observation.</p>	<p>Estimates should be prepared prudently.</p>
<p>It was observed that the allocations of 21 expenditure codes had been saved related to the recurrent expenditure ranging from 6 per cent to 100 per cent during the year under review.</p>		

2.3 Incurring Liabilities and Commitments

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Although, there was a liability of Rs.9,673,881 related to Ceylon Electricity Board, it had not been shown in the liabilities and commitments schedule furnished with the financial statements for the year 2022.</p>	<p>I agree with the audit observation.</p>	<p>All the liabilities should be included in the liabilities and commitment schedule.</p>

- (b) The aggregated liability was valued at Rs.22,399,020 paid in the months of January and February 2023 related to 12 expenditure codes which had not been included in the liability schedule furnished with the financial statements for the year ended 31 December 2022. I agree with the audit observation. -Do-

2.4 Non-compliance with Laws, Rules and Regulations

Audit Observation		Comments of the Accounting Officer	Recommendation
Reference to Laws, Rules and Regulations	Non-compliance		
(a) Customs Ordinance No. 17 of 1968			
(i) Section 153 (2) (b)	Although, a suitable methodology should be prepared to disburse the reward money out of the reward fund with the concurrence of the Minister of Finance, without verifying whether the concurrence of the Minister of Finance was obtained for the Departmental Order No. PL 118 of 28 January 1988, a sum of Rs.20,870,564,416 for the officers and a sum of Rs.3,143,829,243 for the informers had been disbursed as reward funds for 23 years since 1999 to 2022.	Disbursement of reward money of the Customs Department is currently done according to the policy document No. 118 of 28 January 1988 and according to the revised departmental orders related to it. It is noted down to report after implementing further verifications about the Departmental Orders and related documents issued in previous years in order to find out about obtaining the concurrence of the Minister of Finance for the same.	Compliance to the provisions of the Customs Ordinance is required.
(ii) Section 84 (a) (3)	Although, the customs duties should be considered as imports in releasing the goods to local market by any of the industry taking	In paying the excise duty, it should be treated as an import, under Section 84 (a) (3) of the Customs	Compliance to the provisions of the Customs Ordinance is required.

- Manufacturing in Bond facility (MIB), 02 such Companies had obtained the benefit issued by the Minister of Industry No.1448/1 of 05 June 2006 as “70 per cent tax relief given for vehicles assembled using components with a value of not less than 30 per cent locally”. Accordingly, up to Rs. 7,191,949,084 excise duty was defaulted from the year 2017 to 2021.
- Ordinance Act, so the existing provisions of Sections 5 (1) b and 5 (2) (a), 5 (2) (b) of the Excise Act must be applied.
- (b) Establishments
Code of the Democratic Socialist Republic of Sri Lanka
- (i) Paragraph 4.1 and 4.4 of Chapter XIV
- During the voucher checking conducted from January to March in 2022, contrary to the referred clause, travel expenses amounting to Rs. 5,378,494 had been paid as mileage fees in 207 cases regardless of whether the travel distance was more than seven miles or the elapsed time.
- I observe that it is mainly related to the officers working in the customs sub-offices attached to Orugodawatta food warehouse premises.
- Compliance to the provisions of the establishment code is required.
- (ii) Paragraph 4 of Chapter XXIV
- There were the loan balances due from the dead officers exceeding 05 years amounting to Rs. 59,426, outstanding from 01 to 02 years but unrecovered amounting to Rs. 428,842, and the loan balance of less than one year amounting to Rs.816,906 also as at the end of the year
- The loan balance of one officer over 05 years included in the dead officer category was amounted to Rs. 59,426.00. Retired officers are those who retired before ten years. The files related to these officers could not be found.
- Compliance to the provisions of the establishment code is required.

under review.

- There was the loan balance due from the retired officers for more than 5 years amounting to Rs.513,577, the loan balance for years 03 to 04 amounting to Rs.211,273, the loan balance for years 01 to 02 amounting to Rs.444,399, less than one year loan balance amounting to Rs. 3,386,791 as at the end of the year under review.
- There were the loan balances from suspended officers for less than one year amounting to Rs. 591,959, outstanding from 01 to 02 years amounting to Rs.321,884, loan balance outstanding from 04 to 05 years amounting to Rs.68,800, and the loan balance that exceeded 05 years amounting to Rs.1,370,235. There were the loan balance of Rs.309,534 outstanding from 01 to 02 years recovered from the officers who have left the office and the loan balance exceeded 05 years amounting to Rs.473,073. Actions had not been taken to recover these loan balances from the relevant officials.

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

- (i) F.R. 102 to 110
- Bulks of cigarettes dispatched from Singapore under the transshipment method by a foreign private institute had been forfeited by Sri Lanka Customs and then had conducted an investigation. As per the decision of the investigation, approval had been given to re-export the forfeited cigarette stock. In the meantime, that cigarette stock had been sold and earned a sum of Rs.5,901,750 controversially by the Customs. However, particular foreign institute had filed a case against that sale and Customs had been the offender from the District Court. Although, the Customs had filed cases against that decision at the Civil Court and the Supreme Court, an amount of Rs.37,529,749 for the loss incurred to the consignee, an amount of Rs.63,464,121 for the legal interest and an amount of Rs.190,000 for legal fees had been ordered to pay. Consignee or the petitioner had agreed to reduce the legal fees up to Rs.31,732,060 and therefore, the aggregated amount paid by the Customs due to this wrong decision was amounted to Rs.69,451,809. Although, it was reported to audit by Sri Lanka Customs has made the payment ordered by the court as per the instructions of the Attorney General's Department and with the permission of the Ministry of Finance. Adherence to the provisions of the Financial Regulations should be required.

Customs on 22 September 2022 about misplacement of the file related to this investigation, any action had not been taken against the responsible officers for that and to those who were responsible for the wrong decision made mentioned above.

(ii)	Asset Management Circular No. 05/2022 of April 2022	No. 04	Although, all assets should be documented to prevent loss and misappropriation of government property and to ensure maximum effective utilization of government property, according to the asset register related to the CIGAS program maintained by the Accounts Division, there were 102 vehicles and according to the vehicle expense report maintained by the Supply and Services Division, there were 109 vehicles. However, according to 03 fixed asset registers maintained in relation to vehicles by the same Division, there were 165 vehicles owned by the institution.	Sri Lanka Customs has 109 vehicles. The Director General of Customs was asked about further actions related to 56 vehicles, which are included in the fixed assets register but are not physically present, and there is no evidence of misuse, and the file was forwarded to the legal department on 18.10.2022.	Adherence to the provisions of Circular should be required.
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2.5 Surcharges

Audit Observation	Comments of the Accounting Officer	Recommendation
The Customs Department had acquired the Orugudawatta No. 12 warehouse in agreement with the Food Commissioner's Department on rental basis and the surcharge imposed on the delay in monthly payments was Rs.3,655,985.	The Food Commissioner Department has been informed on 25.01.2022 to precede with abandonment and write-off this surcharge under Section F.R. 113.	Monthly payments should be made without delay.

3. Operational Review

3.1 Procurement

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) It had been agreed to obtain the security service for the year 2022 to Customs Head Office and to branches from the institute that provided the service in the previous years from more than 05 years as per the letter of Director General of Public Finance No. PFD/RED/01/05/2015/3 of 22 May 2015 without calling for bids from the appropriate institutions as per the procurement guidelines even for the year under review. Accordingly, an amount of Rs. 27,821,760 was paid to that security company in the year under review for providing security services.	The security service had been provided by Rakna Lanka Security Company and the service is provided at the same prices.	When services are obtained, procurement guidelines should be followed.
(b) Without selecting new suppliers according to the procurement guidelines, contracts from the same parties that provided buildings from 2015 had been renewed and obtained buildings on rent for officers from areas of Negombo, Orugudawatta, Mattakkuliya, Jaffna and Mattala and a total of Rs.15,206,322 had been paid for the years under review.	Vehicle yards, warehouses and residential buildings have been obtained by renewing contracts from the same parties that provided buildings for rent from the year 2015.	When new suppliers are selected, the procurement guideline should be followed.

3.2 Losses and Damages

Audit Observation	Comments of the Accounting Officer	Recommendation
Legal actions had not been taken related to the illegally constructed 15 houses in a land belongs to the Customs at No.40, Mogan Road, Slave Island, Colombo 02.	Deputy Inspector of Police in the Western Province and Divisional Secretary in Colombo were informed in several occasions by letters for years about the illegal residents.	Legal actions should be taken against the illegal constructions.

3.3 Management weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) There were 9754 customs investigations related to 40 Directorates of the Department from the year 2015 to 31 December 2022, of which 3199 investigations related to the Revenue Task Force (RTF), 1593 investigations related to the Preventive Division, 738 investigations related to the Central Investigation Division, and 4224 investigations related to other 37 Divisions. Out of the total number of investigations as at the end of the year under review, there were 3582 older than 05 years, 4720 were between 1 to 5 years and 1452 were within one year.</p>	<p>The relevant officials have been instructed to take necessary steps for the speedy completion of pending customs investigations.</p>	<p>The actions should be taken to complete the investigations promptly.</p>
<p>(b) A consignment of 3,669 logs weighing 420 metric tons of Malagasy Rose Wood, which was endangered and restricted to international trade, known as African Hard Wood had been re-exported from Zanzibar Port in Tanzania to Hong Kong via Sri Lanka Port. Although, the Customs had forfeited and planned to sell on several occasions, it was stored in a customs yard without being removed from 2014 to 30 April 2023 due to the inability of obtaining CITES license issued by the Department of Forest Conservation. Being the unseasoned trunks, this wood stock had already been damaged by insects and for storing the wood stock from 2014 to January 2022, Gray Line Container Yard had informed the Customs about</p>	<p>This stock of Rose Wood has been submitted for tender about sixty-five (65) times since 22.08.2015 and the wood stock has been awarded to the highest bidders only in 04 occasions. However, they have not paid the relevant money and cleared the goods from the customs.</p>	<p>The forfeited materials proposed to be traded should be sold immediately and credited to the government revenue.</p>

an estimated cost of Rs.81,621,820.

- (c) Due to a complaint received from the importer himself about an enclosure of cocaine drugs in his sugar containers imported from Brazil, an investigation had been conducted. Even after confirming that they did not contain drugs, out of the sugar containers, 04 could not be released by the importer. Due to that, an investigation had been started in February 2017. Accordingly, under Section 109 of the Customs Ordinance, the relevant sugar stock was forfeited and resold as animal feed in April 2022, and 05 years had passed for that. Relevant sugar stock has been tendered on 07.04.2022. Actions should be taken to complete investigations rapidly.
- (d) Customs had entered into agreements in 2015 with a private institute to rent 18,000 square feet of land for holding vehicles and containers seized by customs during customs investigations conducted by various departments, handed over to customs by other regulatory agencies and seized by other regulatory agencies under customs supervision until auction or disposal was held. There were 435 vehicles and 91 containers parked in that yard as at 31 January 2023. Out of these, 261 vehicles and 86 containers had been kept at the site for more than 05 years, and the investigation files related to 133 vehicles had been misplaced. The customs had entered into a formal agreement with the respective private company from the year 2015 to the period of 2020 only and then had extended the time till January 2023 on 05 occasions and utilized the land. The total amount of rent paid and payable to the concerned A yard belonging to a private organization located in Mattakkuli has been used on rental basis to safely hold the vehicles and containers seized by the Sri Lanka Customs Since 2015 until the inspection is completed, and the monthly rental amount is paid by the Sri Lanka Customs. Appropriate actions should be taken regarding the retained containers and misplaced investigation files without delay.

private entity was Rs. 77,485,548 from the year 2015 to January 2023. It was observed during the audit that formal measures should be taken immediately regarding these assets which have been parked for more than 05 years.

- (e) **Releasing 102 fish containers from the Customs which were not suitable for human consumption** This incident was occurred at the beginning of the year 2022.

The ship called CMA CGM Kailas, which was carrying containers of tuna fish from Sea Shells to Thailand, had suffered a technical fault in the sea area near the port of Colombo, stating that the power supply had stopped for 20 days and informed the nearest port of Sri Lanka. Accordingly, as a quick measure, electricity was provided by generators and Sri Lankan tug boats had used to stop the ship in Sri Lanka on 13 January 2022 and take necessary measures. The following observations were made regarding the release of the fish stock to an outside party by the shipping agency, saying that 102 fish containers on the ship had deteriorated by that time and the exporter would not accept the stock again.

- (i) Although, a committee appointed by the Senior Director of Customs had decided to change the nature of the shipment of this stock of fish from transshipment status to import cargo status, proper approval had not been formally obtained from a HS Code classification committee. Although, it was reported that this stock of fish had taken a spoiled nature also, it was entered in the Custom Declaration under the HS Code 511.91.10 as Whole Round Tuna in Bulk and accordingly Rs.6,288,357 had been collected by the Customs as tax.
- This material is classified as fish waste under classification number 0511.91.10. Since this classification is correct and only in case of ambiguity about the classification, reference is made to a "classification committee", I would like to mention that there is no need to put it in a classification situation.
- Hence, the fish stock has taken on a spoiled nature and there is an ambiguity about classification, it is required to refer to a "Classification Committee".
- (ii) Although, the company that bought this stock of fish should apply to obtain an import license from the Import and Export Controller General, the Deputy Director of Customs, Central Disposal Directorate had informed the Import and Export Controller on 22 May 2022 that an import control license was required.
- The relevant import license has been issued to Eco N Rich Organic Fertilizer under number IM-5-550-2022-001380.
- Customs officials should not request the Import and Export Control Department for a need of import control permits.
- (iii) In a physical verification conducted on 16 August 2022, it was observed to audit that an unhealthy situation has been created in the vicinity of the fish stores causing a very smelly situation and the surrounding environment has become polluted due to the flowing impure solutions. This is due to ignoring the capacity of the fertilizer producer and allowing a large stock of fish to produce fertilizer, the work was not done with sufficient capacity (due to lack of sufficient labor and equipment) and the supply of electricity to the refrigerators in some containers was cut off. Consequently, accusations were made by local
- License required to produce fertilizers has been issued to this Company on 28.10.2021 by the Office of the Fertilizer Secretariat.
- Attention should be paid to observe whether a harmful situation to public would be created.

residents and the Police Officer in Charge of Mahabage had informed to remove 60 stored containers on 07 July 2022.

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| (iv) | Although, providing of some facilities at the nearest port for defects to the ship in case of an emergency could be allowed, the customs had decided to release this inappropriate stock of fish into Sri Lanka, despite the prohibition of the importation of goods prohibited and restricted from importation under Schedule (a) of the Customs Ordinance include, in accordance with clause (12) of the said Schedule, foul smelling or in an unpleasant condition or indigestible and unfit for legal use or untouchable or disease-causing fish, grains and other things without notifying the Sri Lankan shipping agency to re-export as per the provisions of the Customs Ordinance. | Investigations related to this are further carried out and answers can be given once it is completed. | Compliance to Customs Ordinance is required. |
| (v) | During the release of fish stocks, 17 customs declarations had been accepted and steps were taken to release them to the above institution. Usage of locally prepared Way Bill, Invoice, Packing List to process these customs records was questioned in the audit. | The relevant shipping document is basically entered in the customs data system as transshipment and the nature of the related shipping document has been edited from transshipment to local based on a request made by the Central Disposable Division. | Locally prepared Way Bill, Invoice, Packing List, etc. cannot be used to record and process customs declarations. |
| (vi) | The CMA CGM KAILAS ship, which was said to have suffered a technical fault, arrived at Lanka port on 13 January 2022, while the shipping agency's letters stated that the ship arrived at the port on 08 February 2022. | A letter from the shipping agency states that the ship in question reached Sri Lankan customs as 09 February 2022. | The actual date of the ship's arrival at the port should be mentioned in the customs declarations. |

- (vii) Although, as per Section 162 of the Customs Ordinance, the Director General of Customs cannot take actions under Sections 12 and 43 of the Customs Ordinance, without making a declaration that the stock of fish was illegal, the disposal had been taken place without such declaration.
- As per Department Order 1450, the disposal of forfeited, seized or abandoned goods is done. Accordingly, whether the goods are considered as "abandoned goods" is being investigated.
- Compliance to the provisions of the Customs Ordinance should be required.
- (viii) According to Section 34(1) of the Customs Ordinance, no cargo shall be unloaded from any ship unless the Director General of Customs has given a permit to unload cargo at the port of Sri Lanka and all containers unloaded require the permission and approval of the Sri Lanka Customs. However, in verifying files, no evidence could be found that the Customs had paid such attention.
- I made a note to check and report this.
- Compliance to the provisions of the Customs Ordinance should be required.
- (f) **Audit conducted on essential goods held in container yards by Sri Lanka Customs**
- The following facts were observed during the audit conducted on the essential goods detained by the customs.
- (i) Due to non-submission of relevant reports by the importers regarding 27 containers containing food items that were undergoing customs inspections from January 2021 to 01 August 2022, the release of those containers to them was delayed from 95 days to 563 days. The delay in receiving the certificates from the Department of Agriculture, Department of Health, etc., which should give approvals (recommendations) for imported materials, was the reason for this.
- I agree with the observations.
- Actions related to the coordination of the entities which give required approvals (recommendations) should be taken promptly.

- (ii) 88 containers containing food items were detained for a period of 60 days to 778 days at the Rankin Container Terminal (RCT) yard of the Customs as at 01 of August 2022 due to customs investigations. Their value was amounted to Rs.745,383,250. Instructions have been given to conduct and complete the customs investigations of the containers in question. Investigations on containers should be completed promptly.
- (iii) It was published by the special gazette No. 2152/63 of 06 December 2019 that a license should be obtained for unpowdered and unground turmeric related to the combined classification code 0910.30.10 when importing turmeric to Sri Lanka. At the same time, a letter saying "No objection letters" had to be obtained from the Department of Export Agriculture. However, the Director General of the Department of Exports and Agriculture had informed the Controller General of Imports and Exports that he had decided not to issue "No Objection" letters related to the release of turmeric stocks after 10 of May 2020. After taking the above decision, 624,877 kg of turmeric valued at Rs.151,979,588 had been imported into Sri Lanka on 10 May 2020 and the customs had detained it even by 01 August 2022 for more than 02 years without carrying out the necessary legal procedures. In relation to the Central Investigation Division, there were currently forfeited 42 containers containing 752,739 kg of turmeric worth of Rs. 185,137,064 out of which 15 containers have been sent to the Central Disposal Unit for disposal. The necessary legal proceedings to release the containers should be done without delay.
- (g) Under the Temporary Importation for Export Processing Scheme (TIEP) scheme, a company registered with the customs to import coconut oil and add value for re-export had not re-exported the same coconut oil for many years and had lost tax revenue to the government by selling it to the local market. According to the investigation conducted by the

customs in this regard, during the period from 2014 to 2017, the amount of coconut oil sold by the above private company to a local company was 463,065kg and the penalty value determined by the customs investigation was Rs.477,377,802. The following observations were made in this regard.

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| (i) | Although the customs officials should conduct formal supervision every year on the establishments receiving facilities under the TIEP scheme, the audit cannot rule out the fact that such frauds may be committed by other companies due to the lack of such supervision. | Depending on the number of staff members available, once a year, field observations are made. | Field observations should be conducted about the Companies registered under (TIEP) Scheme. |
| (ii) | The penalty value of Rs.477,377,802 imposed on the private company is Rs. 90,000,000 to relax (Mitigate) had been done by the customs and there the seriousness of the violation leading to punishment or confiscation as per 166 (b) of the Customs Ordinance, the amount of revenue lost etc. had been ignored. However, the total loss incurred by this company to the government due to registration under the TIEP scheme was Rs.63,567,715 and the loss value was Rs. 90,000,000, the revenue actually received by the treasury was Rs. 27,000,000 (Rs. 90,000,000 × 30%) had been reduced. | The loss of Rs.477,377,802 imposed to the private company was reduced to Rs.90,000,000 (Mitigate) by the Customs Investigation Officer as per Section 163 of the Customs Ordinance. | Adherence to Customs Ordinance should be required. |

- (h) Based on the assistance provided by the Japanese government for the Eastern Province Water Development Project, the Treasury of the Government of Sri Lanka had assigned the task of importing DI pipes and fittings to The National Water Supply and Drainage Board and the board had given the contract to a private company for the same. According to Section 72 of the Customs Ordinance, the customs had given the opportunity to the private company to warehousing the goods without paying tax in the first instance, and for that purpose, 08 Cusdecs were issued and USD. 5,139,621 goods were warehoused (To Bond). According to Article 86 of the Customs Ordinance, the invoice value of the previously declared goods must be declared when the goods are released from the warehouse. However, locally processed invoices had been used and the corresponding value of USD 6,350,364 with false information were recorded and presented, thus a value of USD 1,210,743 was provided to the concerned institution to get more. Although, it was directed by the Committee on Public Accounts held on 06 of April 2021 to check the possibility of recovering the excess money paid regarding the mistakes done by said institute such as preparing fake invoices and furnishing wrong information, actions had not been taken even as at the audit date of 30 April 2023 accordingly.
- Until the time of this audit inquiry, accepting with a higher value at the time of ex-bond than at the time of to-bond has been done as a practice. Creating high value invoices is an accepted normal commercial practice (TRADE NORM).
- According to Section 86 of the Customs Ordinance, the invoice value of the goods declared earlier should be declared when the goods are released from the warehouse.
- At present, according to the decision of the Attorney General, the value used in to-bond is similar to the value used in ex-bond.

4. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>A legal officer, 02 technical officers and a statistical officer, who were necessary for the functioning and performance of the institution, remained vacant even as at the end of the date of the year under review.</p>	<p>A letter has been drafted stating that since the officers of the Customs Department perform the work of the legal department, no need for the position of legal director and to approve the hiring of a legal officer to get necessary advice in the performance of general duties.</p>	<p>Attention should be paid to the human resources required for the functioning and performance of the institution.</p>