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INTERIM REPORT
OF
THE COMMITTEE ON PUBLIC ACCOUNTS

to recommend the steps to be taken by and among key
stakeholders to improve the collection of government
revenue by using effective Information & Communication
Technology (ICT) Systems

Presented by
Hon. Lasantha Alagiyawanna
Chairman of the Committee on Public Accounts
on 23rd November 2016

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First Session of the Eighth Parliament

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Chairman's Message

The Committee on Public Accounts while exercising the financial oversight functions vested to it by the Parliament by the Article 148 of the Constitution observed certain drawbacks in the implementation of information technology in state institutions. As a result, the loss of government revenue, loss of transparency, and the difficulties in the audit procedure occur. Therefore, the committee decided to implement a systematic procedure for the development in the field of Information Technology in order to upgrade the performance of the state institutions. A Five Member Sub Committee was appointed with the Chairmanship of Hon. Eran Wickramaratne with the objectives of the maximizing the government revenue, establishing a customer friendly operation, efficiency in the management and the ease of audit. The Committee intended that this initiative would uphold the public trust and the concept of good governance.

The Sub Committee having conducted several meetings with the key stake holders to the government revenue presented its report to COPA which contain the Committee's specific observations and very effective and timely recommendations. It is presented to the Parliament as an interim report.

I greatly appreciate the commitment of the Hon. Eran Wickramaratne, chairman of the Sub Committee and the other members of the Committee. I thank Mr. Lalith R. De Silva, Consultant of COPA, Dr. NevilGunawardene, former Director General of Customs and Mrs. MallikaSamarasekara, former Commissioner General of Inland Revenue who extended their co-operation in compiling this report. I also thank Information and Communication Technology Agency (ICTA) and M/S LankaClear (Pvt) Ltd who provided the expertise to the Committee. I take this opportunity to thank the officers of Parliament including the Secretary General of Parliament, Deputy Secretary General of Parliament, Assistant Secretaries General of Parliament and officers of the Office of the Committee on Public Accounts as well as the Auditor General and his staff though amidst various challenges extended their unstinted cooperation which I expect of them.

I wish to state at this juncture that the government will take necessary action to implement the recommendations mentioned in the report to realize the intentions of the Committee.

The Report of the Sub Committee Appointed by the Public Accounts Committee of Sri Lanka Parliament to recommend the steps to be taken by and among key stake holders to improve the collection of government revenue by using effective Information and Communication Technology (ICT) Systems.

Background

We the under signed members were appointed to the above mentioned Sub Committee by the Committee on Public Accounts, in the month of March 2016. After having seven extensive Sub Committee meetings, we are pleased to submit our report on the matters referred to the Sub Committee. The terms of reference of the Sub Committee, the Methodology adopted by the Sub Committee, the details of deliberations at each Sub Committee meetings with findings and our observations on those matters and our recommendations for improvements, at both individual agency level and national level are reflected below.

Terms of Reference of the Sub Committee (TOR)

To make recommendations to the Public Accounts Committee on the steps to be taken by respective government agencies in order to make sure, maximum management efficiency with the help of Information and Communication Technology (ICT) to minimize revenue leakages while addressing the ease of doing business to the satisfaction of the stakeholders in a transparent manner.

The Methodology Adopted by the Sub Committee

a) Arranging general discussions, involving key revenue earning Departments, public sector information technology service providers, payment gate service providers and public sector banks.

b) Arranging Interactive discussions, focusing the targeted revenue earning departments and selected process connected, supporting agencies and the service providers.

c) Pausing direct questions and observations at the meetings and obtaining responses.

d) Calling status reports on current status of implementation of management information systems in the respective agencies.

e) Sending questionnaires to obtain specific clarifications.

The Observations and Outcome of the Preliminary Discussions

The Sub Committee had two preliminary discussions on 24th March 2016 and on 03rd May 2016 with the participation of following agencies;

- The Department of Customs

- The Department of Inland Revenue

- The Department of Excise

- The Department of Immigration and Emigration

- The Department of Registrar of Companies

- The Department of Motor Traffic

- The Department of Import and Export Control

- The Ministry of Finance

- Department of Registration of persons

- Registrar General's Department

- Colombo Municipal Council

- The Bank of Ceylon

- The Peoples Bank

- The Institute of Communication Technology Agency

- Lanka Clear Company Ltd.

At the outset of the deliberations, the Chairman of the Sub Committee explained the purpose of appointing the Sub Committee and each of the agencies were requested to give brief presentation with regard to the current position of application of management information systems in their agency, and the challenges and barriers currently faced by them. The Committee also directed the respective agencies to submit a written report to the Committee, explaining the current status of the ICT applications within the organization and suitable future plans for improvement. (Annexure B-2 for details on deliberations)

The Committee made the following observations/suggested parameters to be followed, in its further deliberations.

- Possibility of increasing the Quality of service offered by agency by upgrading the existing ICT system or introducing new areas to be covered by ICT system.

- The transparency is comparatively high when communications are performed on line.

- Electronic payment modes are comparatively easy, effective and time saving as against other payment modes.

- The current procedures of certain government agencies, creates bottle necks.

- Need of an efficient and effective mechanism to implement required changes in government agencies, with regard to technical, management and administrative issues.

- Re-engineering of work process where necessary, when transferring from manual systems to ICT based systems.

- Easy and transparent dissemination of information to audit and other regulatory agencies.

The Composition of Government Revenue

The Sub Committee decided first to study the composition of government revenue in order to identify the priority areas.

The composition of the government revenue collection in 2015- classified according to Revenue Accounting Heads and sub classification as per revenue items

Government Revenue 2015

Name of the Department	Percentage
Department of Customs	43.58
Department of Inland Revenue	37.13
Department of Excise	7.45
Sub Total	88.16
All Other government departments	11.84
Total	100.00

Revenue Sub Classification

Name of the Department	Revenue Item	Percentage of its Total
Dep. of Inland Revenue Corporate		
	Income Tax	26.56
	VAT on Imports	15.95
	VAT on Other Services	14.05
	Withholding tax on Interest	11.89
	VAT on Manufacturing	5.51
	VAT on Financial Services	5.32
	Non Corporate PAYE Tax	4.99
	Nation Building Tax –Services	4.05
	Sub Total	88.32
	All Other Taxes	11.68
	Total	100.00

Department of Customs

Excise duty on Motor vehicles	36.28
Import duties	17.55
Excise duty on Cigarettes	12.99
Ports and Airports Development Levy	9.21
Special Commodity levy	8.49
Excise duty Petroliam Products	7.32
Import cess Levy	6.90
Sub Total	98.74
All other 9 Items	1.26
Total	100.00

Department of Excise

Excise Duty on Liquor	99.97
Tobacco Tax	0.03
Total	100.00

Source: Department of State Accounts - Island Accounts 2015

Having studied the composition of the Government revenue, sources and agencies that are mainly responsible for the collection, Sub Committee decided to concentrate their studies on the three main Departments, namely Sri Lanka Customs (SLC), Inland Revenue Department (IRD) and Excise Department of Sri Lanka (EDSL). The Sub Committee also decided to call few other institutions, which are directly connected to import and export processes or who could be used as vital information providers for improvements. The Sub Committee held five such interactive sessions and followed with further clarifications. The information gathered are enclosed herewith for reference. (Annexure B1 for answers received for questionnaires)

The outcome of the study of the Sub Committee on the three selected Departments, are as follows.

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The Department of Customs

It was noted that, in 2015 the Customs Department has collected the highest percentage of revenue amounting to 50.62% (including the import VAT and NBT collected on behalf of IRD) from the total collection of government revenue. This revenue is mainly collected from imported commodities at the point of importation as Custom duty, Excise duty under Excise (Special Provisions) Act, Value Added Tax (VAT), Special commodity Levy (SCL), Export

Development Board Cess (EDB Cess), Nation Building Tax (NBT) and Port and Airport Development Levy (PAL). The Customs is also responsible for collecting Excise Duty on locally manufactured commodities such as cigarettes, petroleum products etc., under the Excise (Special Provisions) Act.

In addition to revenue collection, the Customs is responsible for enforcing laws in respect of restrictions and prohibitions on imports and exports, with the cooperation of relevant statutory bodies to address Social, Health, Environment and Security related commitments.

Having recognized the high revenue collection on imports, the Sub Committee decided to focus mainly on the Customs import clearance procedure in order to understand the current position of the Management Systems in Customs and its effective use of ICT.

The Sub Committee therefore studied the progress of ICT applications along with the Risk Management System (RMS) in Customs, Board of Investments and other major statutory bodies which work with Customs in the import cargo clearance process in respect of import restrictions and prohibitions, namely Import and Export Control Department, Board of Investment of Sri Lanka (BOI), Ministry 0f Health, Nutrition & Indigenous Medicine, Sri Lanka Standards Institution (SLSI), Department of Animal Production and Health and Department of Agriculture.

Observations

The Sub Committee first noted that the main responsibilities of Customs are collecting revenue, preventing illegal imports and exports, facilitating legitimate trade, and providing data for compilation of imports and exports statistics.

The Sub Committee noted the progress made by Customs in the area of ICT. It was reported that the Customs and BOI are currently using the latest version of Automated System for Customs Data (ASYCUDA)

software namely "ASYCUDA World" which was developed and managed by the UNCTAD. It is further reported that the ASYCUDA is presently used in more than 80 countries and being developed on regular basis with the new technology to meet the latest requirements of the international trade. With the ASYCUDA World, the Customs had already initiated a programme, named as "Single Window" System to communicate electronically with all the stakeholders involved in the imports and exports trade. At present, Customs share the import and export data with Department of Census and Statistics, Ministry of Finance, Central Bank, IRD, RMV, Department of Commerce, Sri Lanka Tea Board and Export Development Board (EDB). Customs has also implemented electronic communication systems with two state banks, importers, exporters, clearing agents, freight forwarders and shipping agents which are commonly called as e-payments, e-CUSDECs and e-manifests. Furthermore, the Customs Website also provides necessary information to their stakeholders.

The Sub Committee noted that the current e-Payment system is limited only through the Bank of Ceylon and Peoples Bank but further developments being made to connect all the banks through a new project initiated with the Central Bank and Lanka Clear Company Ltd. With regard to submission of Customs declarations electronically (e-CUSDECs) to Customs by the importers and exporters, receiving the manifests from the Shipping Agents and their Sub Agents (e-manifests) have been implemented.

However, the Sub Committee noted that the other statutory bodies involved with the Customs during cargo clearance process have not progressed to a satisfactory level. This had resulted delays in clearance of cargo. In this respect, lack of commitment, lack of reengineering of the processes for effective use of ICT and lack of ICT facilities were evident. Furthermore, the Sub Committee felt that the current investments on ICT without proper study on reengineering of the business processers and proper maintenance of the ICT systems should be carefully looked into.

The Sub Committee felt that the ICT developments in Customs should be looked into along with the Risk Management System in Customs in order to facilitate legitimate trade. Such trade facilitation should look in to unnecessary human intervention during the cargo clearance procedure and to pay more attention to develop the Post Clearance Audit System.

The Sub Committee observed that the Risk Management System (RMS) currently adopted in Customs is not acceptable. It appeared that all the

imported consignments are presently subjected to both documents check as well as cargo examination. However, according to the information provided by Customs, over 98% of consignments have been released by Customs without any issues. Hence, it appeared that 100% examination of consignments would be a waste of resources and would not be in accordance to the concept of facilitating legitimate trade. The Sub Committee therefore felt that there should be an effective RMS to analyze risk areas, in respect of revenue collection as well as restricted and prohibited commodities, in order to manage the risks effectively with the optimum use of the available resources. Furthermore, with regard to the restricted and prohibited commodities, the Customs should develop the RMS with the cooperation of relevant statutory bodies. The Customs should analyze risks of all aspects, including corrupt officers and political interferences, and should manage those risks with optimum use of appropriate human resources, selectivity module of ASYCUDA WORLD and other tools such as X-Ray machines.

The Sub Committee also noted the importance of having an effective monitoring system of bonded cargo using ICT in order to minimize leakages, particularly in respect of those cargo which removed from the ports without payment of import duties and taxes under the schemes of both Customs and BOI.

With regard to the Customs processers on imports clearance, in general, the Sub Committee observed that they should be reengineered along with the ICT developments and those processers should be published in the Customs Website wherever possible.

The Sub Committee also observed that the Customs investigation and inquiry procedures were not satisfactory and should be looked in to as a higher priority. There appeared to be numerous investigation divisions within Customs for prevention of illegal trade but they do not work in a consistent manner to meet the objective. The Sub Committee felt that these procedures should be reviewed and improved in order to avoid corrupt and unprofessional practices leading to delays, loss of revenue and protection of illegal trade.

Recommendations

Direct the Director General of Customs to:-

1. Complete the implementation of the Customs Single Window System.

2. Establish an effective Risk Management System in Customs in order to facilitate legitimate trade and combat illegal trade. The system should analyze risks of all aspects, including corrupt officers and political interferences, and manage those risks with optimum use of available human and other resources.

3. Review the import and export Customs procedures, in the context of Single Window System and Risk Management System, and publish the new procedures in the Customs Website for the benefit of all the stakeholders.

4. Review the Customs preventive area structure and also investigations and inquiry procedures and to implement a good preventive structure and appropriate investigation and inquiry procedures in order to avoid corrupt and unprofessional practices leading to delays, loss of revenue and protection of illegal trade.

5. Look into necessary amendments to the relevant legislations for effective implementation of the Single Window System.

6. Develop the ICT system for effective monitoring of Bonded Cargo allowed under the schemes of Customs and BOI.

Inland Revenue Department (IRD)

The Sub Committee noted that the IRD is responsible for collecting VAT, NBT, Income Tax, and Cooperate Tax. Furthermore, with regard to the collection of VAT and NBT from imports, Sub Committee noted that this responsibility had been delegated to Customs. In this context IRD is the second tax revenue collecting Department to the Government, collecting 30.08%(excluding the import VAT and NBT collected by Customs) of the total government revenue, as per the 2015 figures.

Observations

With regard to the direct collection of VAT and NBT by IRD, the Sub Committee noted that in respect of commodities (goods), there is no proper nomenclature and classification system such as Harmonized System adopted by Customs and there is no proper valuation system such as WTO Valuation System adopted by the Customs were in place. In the absence of such systems for commodity taxation, the Sub Committee felt that it would lead to corrupt practices leading to loss of due revenue. It was also reported that the number of VAT registered persons are 15696 and VAT registered financial Institutions are 229. The Sub Committee felt that these numbers may not reflect the actual situation. The Sub Committee therefore felt that the IRD should develop a suitable mechanism to recover the due VAT revenue to the government.

With regard to Income Tax revenue, the Sub Committee felt that the number of current files (135170 Personal Income Tax Files, 13169 of NGOs, Mutual Funds etc.) may not reflect the actual situation. The Sub Committee therefore felt that there should be a mechanism to receive a declaration from every adult of the country to evaluate whether a personal income tax file should be opened or not. If this is a difficult process to implement, the Sub Committee felt that the IRD should at least share the data with the DMT since it was reported that there are over 6 million vehicles registered at present. The Sub Committee was informed that there are no legal barriers to share the information with RMV.

With regard to the Cooperate taxes also, the Sub Committee felt that the current number of corporate tax files (47,154) may not reflect the actual position. IRD should look into this by sharing information with the Department of Registration of Companies.

The Sub Committee noted that the audit procedure of Declarations and Tax Files and investigation procedures should be looked into carefully to

minimize revenue leakages by optimum use of appropriate available human resources, ICT and other resources.

At present IRD is in the process of implementing Revenue Administration Management Information System (RAMIS) with the assistance of SingaporeGovernment. This project has started in July 2014 and the first phase would be completed in Sep. 2016 and the second phase to be completed by December 2016.

The Sub Committee felt that it would be important to improve the internal audit system to overlook the manual systems and RAMIS in order to have an efficient and effective management system at IRD which ensures collection of due revenue to the government while addressing ease of doing business with the stakeholders.

Recommendations

The Commissioner General of IRD, should be directed:

1. To implement a good nomenclature and classification system and a valuation system to collect due revenue to the government on commodities(goods) in respect of VAT and NBT by taking into consideration of those systems implemented by Customs; To develop a suitable mechanism to increase the VAT registrations in order to recover the due VAT revenue to the government.

2. To implement an effective system to collect necessary data, such as data available with the DMT, to open new tax files in order to recover the due revenue to the government.

3. To develop the ICT systems to share the data available with the Department of Registration of Companies to open new corporate tax files in order to recover the due Corporate tax revenue to the government.

4. To implement the RAMIS without any delay with an effective Risk Management System and reengineer the manual processers in accordance to the RAMIS developments with the objective of having an effective management system at IRD which ensures collection of due revenue to the government while addressing ease of doing business with the stakeholders.

Excise Department of Sri Lanka (EDSL)

It was noted that in 2015, the Excise department has collected 7.45% of the total revenue collection of the government. EDSL is responsible for collecting revenue and preventing illegal activities under the provisions of Excise Ordinance and Tobacco Tax Act. EDSL is also acting as a law enforcement agency under the provisions of the Opium and Dangerous Drugs Ordinance.

Observations

The Sub Committee noted that the EDSL is responsible for collecting Excise duty on liquor and tobacco. However, the Excise duty collected from liquor alone accounted for 99.7% of the total revenue collection by EDSL. The Sub Committee therefore decided to focus on revenue collection on liquor and possible leakages thereof and possible improvements of the management system through ICT and Risk Management.

Accordingly, the Sub Committee noted that the major areas of leakages of the revenue would be those leakages from the Customs liquor bonds including duty free shops, illegal imports of ethanol and illegal production of ethanol locally. Ethanol, which is the active ingredient of alcoholic beverages, is also used in industries for different applications. Such ethanol, sometimes not suitable for potable use, is abused to produce illegal liquor. Ethanol is also produced locally, by using sugar as the main raw material, for the production of illicit liquor. All these illicit liquor would result, loss of revenue and health issues.

The Sub Committee observed that there is no formal Risk Management System (RMS) in place in order to combat illegal liquor manufacture.

With regard to the leakages from Customs liquor bonds, including Duty Free Shops, the Sub Committee felt that the EDSL should carry out a joint progamme with Customs and establish and effective Risk Management System. The detections made by the Customs during last five years should be studied first to identify the risk areas and to manage the risks through an effective RMS.

With regard to Imports of ethanol for manufacture of illicit liquor, the Sub Committee felt that a detail study should be carried out by the EDSL with information available on detections made by the Customs during the last five years, to identify the risk areas and to manage the risks through an effective RMS.

With regard to local manufacture of ethanol for illicit liquor, the Sub Committee felt that a careful study should be carried out with the participation of all relevant agencies, firstly to understand the raw material sources and manufacturing processes of illicit liquor and thereby identify the risk areas and to manage the risks through an effective RMS.

The Sub Committee also noted that EDSL has taken certain steps to discourage illegal activities but felt that they should review the tax policy in order to collect the required revenue while discouraging the illegal trade. For example, certain initiations such as increase of taxes and reducing quota for import of ethanol for legitimate industrial use may not be the solution to collect the required revenue and discourage the illegal trade.

With regard to ICT, the Sub Committee was informed that ICTA is involved with the Excise Department to design a system with the objective of better management of Excise Revenue.

Recommendations

The Director General of Excise should be directed to:

1. Establish an effective Risk Management System to facilitate legitimate trade and to combat illegal trade. The System should analyze risks of all aspects, including corrupt officers and political interferences, and manage those risks with optimum use of ICT with available human and other resources.

2. Review the current tax policy on liquor and to recommend an appropriate tax policy to the Ministry of Finance in order to collect the required revenue while discouraging illegal trade and facilitating the legitimate trade.

3. Establish an appropriate ICT system in consultation with ICTA to build up a necessary data base and to communicate and share the relevant data with all the stakeholders in order to achieve the objectives of the department more efficiently and effectively.

4. Carry out a detailed study on detections made during the last five years (2012-2016) by EDSL, Sri Lanka Customs and Sri Lanka Police, relating to illegal imports of ethanol, illegal manufacture of ethanol and manufacture of illicit liquor and submit a detailed report, on risk areas identified and follow up actions taken to manage the risks in respect of both revenue loss and health issues, to the Committee on Public Accounts within six months.

Other Observations

The Sub Committee noted the following situations with regard to use of ICT by other agencies who were invited before the Committee and inter connectivity aspects of those programmes with the ICT Systems of key revenue earning agencies.

Even though the Customs shares the import data of motor vehicles with the Department of

Motor Traffic (DMT) there was no system to share information on registered vehicles with Customs and other law enforcing agencies. In view of the fact that there are un registered illegal vehicles on the road, the Sub Committee felt that it is important to improve ICT system at DMT to share such information with Customs and Sri Lanka Police in order to combat illegal trade of motor vehicles. The Inland Revenue Department (IRD) should also share the information with DMT, as base information, for them to open new tax files. The Sub Committee noted that the DMT is currently using the ICT for registration of motor vehicles, transfer of motor vehicles and issuing of driving licenses. It is further reported that the DMT has the plan to implement E-motoring project where the expectations are to implement on a web based registration system with minimal human intervention and covering all 17 district offices.

The Sub Committee observed that the current applications of ICT at the Department of Registration of Companies (DRT) is at very minimal level and noted that the implementation of ICT solutions will facilitate providing vital information to IRD and other relevant stake holders, while increasing institutional efficiencies. It was reported that awarding of tender to implement a comprehensive ICT system to the department will be finalized shortly and expects to complete the total implementation by 30th April 2017.

The Sub Committee noted that the completion of project on issuing Electronic National Identity Card (ENIC) by the Department of Registrar of Persons (DRP), has been delayed due to some legal barriers and the project is re started with required amendments to the Act. The departmenthas planned to complete the implementation of ENIC within a time period of Nine months. It was reported that the department can share some information with other external agencies within the provisions of the Act and presently IRD can verify the authenticity of NIC.

The Sub Committee also noted that the Department of Register General, (DRG), The Department of Import and Export Control (DIEC) and the

Colombo Municipal Council are, in the process of implementing their own ICT programmes while agencies like Food Control Unit of the Health Ministry and Quarantine Division of the Agriculture Department are provided with facilities by the Customs to get the recommendations required, electronically in the Customs cargo clearance process.

The Sub Committee also observed that there were overlapping areas such as examination of cargo, analysis of samples, collection of charges and fees etc., which could be reviewed and simplified with effective cooperation between the relevant authorities. For example, collection of payment by other statutory bodies for their services may be simplified by requesting the Customs to recover such payments along with other taxes and payments through the e-Payment system.

The Sub Committee also observed that with the application of ICT, the necessary amendments to the relevant legislations, such as electronic signatures, should be looked into and implemented as early as possible.

With regard to on line payment (e-Payment) facility, the Sub Committee noted that the current arrangement was limited to work with only two state banks. Accordingly, customers holding accounts with other banks have to make their payments either by way of pay orders issued by other banks or cash. Even though there is one ongoing programme with the participation of Central Bank, ICTA, Lanka Clear and Ministry of Finance to facilitate on line payments through other banks as well, no final decision has been arrived due to limitations of the arrangements such as cut off time for fund transfer, maximum limit of a single fund transfer, cost of fund transfer etc. The Committee observed that the system adopted with the two state banks could be extended to selected private banks too, simply allowing main revenue earning departments to open bank accounts and opening back to back accounts of Treasury with those banks to use the cash collected instantly and economically.

General Recommendations

Direct the Ministry of Finance to:

1. Establish and lead a dedicated team to implement a time bound action plan to achieve followings, with the participation of Ministry of Digital Infrastructure, ICTA, and with other required representations.

   1.1 Direct and monitor the implementation of directions given in this report to Director General of Customs, Commissioner General of Inland Revenue and Commissioner General of Excise.

   1.2 Monitor and guide the proposed ICT programmes by the Commissioner General of Motor Traffic, Registrar of Companies, Registrar of Persons and Registrar General in order to timely implementation of the programmes and sharing of information to expand the tax base to avoid revenue leakages.

   1.3 Monitor and guide the proposed ICT systems in the Import and Export Control Department, Sri Lanka Standard Institution, Ministry of HealthNutrition& Indigenous Medicine (for food control), Department of Animal Production & Health (for Animal Quarantine) and the Department of Agriculture (for Plant Quarantine), which are the main agencies involved with Custom in the imports clearance procedure, to ensure proper import controls while facilitating legitimate trade through an effective Risk Management System. Re-engineering of processes should be looked into before IT applications areimplemented in order to minimize the overlapping areas and to simplify the processes through ICT.

   1.4 To carry out System Audits by ICTA on all Soft Ware programmes currently used by three main revenue earning departments and report to the Auditor General within six months.

2. Look in to the possibilities of extending the e-Payment facilities, currently operated with two State Banks, to few selected private banks on similar or with better terms in order to facilitate the tax payers in their tax payments and also to encourage the implementation of latest banking developments, such as telebanking 24x7 days.

3. Submit Progress reports on quarterly basis to the Committee on Public Accounts in order to monitor the progress. The first report should be accompanied with a detailed implementation plan with time line for each action.

4. The Auditor General should submit a report on the progress of the implementation of these Recommendations by 1st October 2017 (before the budget) if necessary, after obtaining the assistance of local or foreign experts with technical knowledge.

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3. Hon. Seyed Ali ZahirMoulana
4. Hon. (Dr.) NalindaJayathissa
5. Hon. (Dr.) KavindaHeshanJayawardana

DELIBERATIONS OF THE COMMITEE

The Department of Inland Revenue

Present Status

- Online transaction facility is currently available.

- Automation of all types of taxes in place

- Pre-printed tax paying slips to avoid irregularities

- Identified 23 institutions to be interfaced or connected in the process of inter connecting with the Department of Customs, Bank of Ceylon, Peoples Bank, Central Bank and the Ministry of Finance.

Barriers

- Inability to interface with the Department of the Registrar of Companies due to non-availability of network facility with them.

- Inability of the Department of the Registrar of Persons to produce necessary information due to legal barriers

- Inability of the Department of Motor Traffic to produce necessary information due to legal barriers

- Inability to integrate the Phase 2 with all IRD regional offices, due to certain regional offices are not equipped with new computers.

- In adequate cooperation from other agencies

- Lack of resources to organize seminars for taxpayers and internal staff.

- Additional manpower requirements

Strengths

- Ability to issue a unique number to the taxpayers upon the 23 agencies are interfaced or connected

- Possibility to trace whether a person has a tax file or not, using the link.

- System Audit

Suggestions made by the Committee

- Introduce tax paying mode through credit cards too

- To provide the Auditor General with the relevant documents for an audit on the RAMIS System and thereby facilitate him to forward his views on same to the Committee

- Make the System user friendly and easy for taxpayers

- Forward the existing barriers with regard to the system under implementation or on any policy matters, in writing to the Committee

- Explore the possibility of negotiating with the BOC and other banks on the collection of revenue and the transfer of such collected funds to the BOC – other bank

- Easy access for the Public to the IRD System and facilitate registration without security and to ease the process of registration

- Department of Inland Revenue to explore the possibility of increasing the revenue by monitoring the usage/transactions through banks, credit cards, vehicle registration, etc.

- Department of Registrar of Persons (DRP) should revisit the current person's registration Act in order to identify the possible areas of data sharing related privacy regulations and make necessary amendments as per the current and future data sharing requirements among key government organizations who depends upon DRP.

The Department of Customs

Present Status

- access for most of the exporters to the electronic system
- fully electronic facility for the customers to pay the custom levies

Barriers

- Examination units of Yards not connected to the automated system. No network connection to the remotely located yards
- No automation with the external agencies i.e. banks, shipping agencies, etc.
- No authority to issue Digital Signature documents/receipts etc.

Suggestions by the Committee

- Change the government policy on the existing payment mode and to include such payments on custom duty through credit cards
- Immediate implementation of the Air Cargo System
- ICTA to expedite the process of establishment of the National Certification Authority in order to strengthening the electronic transactions and exchanging documents electronically as legally valid documents and thereby grant permission to the Department of Customs to issue Digital Signature documents/receipts, etc. (Vide the Electronic Transaction Act of 2006)
- Regularize the national level payment platform
- Implementation of an efficient homepage classification system and a valuation system to obtain correct revenue
- Importance on MIS Management System
- To develop the Automation System and the Risk Management System simultaneously.

The Department of Excise

Present Status

- Ability to transfer the data on daily basis of the liquor manufactured locally to the Head Office through the software

Future Developments

- To develop the software on EOI documents to obtain revenue from liquor license.

- Implementation of E-services to issue liquor license

- Implementation of the Production Monitoring System from the point of raw material to the final product

- To introduce a special sticker to paste on the liquor bottles to facilitate the identification of genuine products and secure the revenue

- To use the Business Process Re-engineering System (BPRS) – to analyze and redesign the workflows within and between enterprises in order to optimize end-toend processes and automate no-value-added tasks as a tool of management.

Suggestions by the Committee

- To maintain a strong link with the Department of Customs in order to monitor the ethanol imports

- Each and every institution involved in the process of imports and exports to have their own Risk Management System

- Conduct an Audit on the Automated System through the Auditor General though it is costly

- Appointment of a responsible person to maintain the System.

At this stage Committee decided to have few interactive sessions, centering one of the key revenue earning organization at a time, along with few other organizations who could be supportive of or required of in the process of improving their revenue collecting activities. Accordingly following Organizations were called before the Committee and were examined focusing on the following areas.

- Present status of the Audit Management System and the IT Management System

- Current issues and barriers faced under the Audit Management System and the IT Management Systems.

- Strengths and weaknesses incurrent Audit Management Systems and IT Management Systems.

- Plans for future developments.

- Connectivity issues under the Audit Management System and the IT Management System with external institutions

- reconciliation of revenue

The Department of Registrar of Companies

The following matters were discussed/disclosed.

- Procurement process to computerize the entire system of the department has been commenced and the contract would be offered shortly.

- 06 months period will be granted for developing the system (to be completed on or before 31/01/2017)

- Entire process will be completed by 30/04/2017

- After 01/02/2017, registration process of a new company would be possible within 24 hours

- The details of tax payers of new registration could be produced to the Department of Inland Revenue

- Interconnectivity with the Department of Inland Revenue and other selected institutions will be possible

The Committee directed the Senior Commissioner of the Department of Inland Revenue and the Registrar of Companies to exchange the institutional demands and enhance the connectivity of the two systems accordingly.

The Department of Registration of Persons

- Although the Electronic National Identity Card project had been commenced in 2011, due to the legal barriers that was temporary suspended.

- Amendments to the relevant act had been passed on 21 June 2016 and the project to be restarted in August 2016 and all 332 Divisional Secretariats to be linked to the Automated System of the Department.

- Within the existing legal framework, data sharing among external agencies is legal with MOU arrangements.

- After the completion of developments to the system, new identity card could be issued within a time limit of two weeks.

- Within 09 months, old national identity card could be replaced with the ENIC.

- As an interim solution, new identity cards will be issued for the applicants during the transition period.

- In 2017, GCE (O/L) applicants would be issued with new Electronic National Identity cards.

- Developments and updates to the system can be done by the Department itself with the help of any technical Agency, as the Department holds the rights of the software development source codes.

- Presently, the Department of Inland Revenue could confirm the personal identity of a person. With the implementation of RAMIS System, general data too could be shared.

The CEO, Managing Director, ICTA stated that the Hon. Prime Minister has given directives to make arrangements to merge the Digital Transaction Card and Electronic National Identity Card as one card before 30th June, 2017.

Commissioner General pointed out that, to meet that objective, the Department of Registration of Persons currently does not have sufficient legal provisions and the existing acts of relevant institutions have to be amended accordingly.

The Chairman inquired the practicability of launching the card before 30th June, 2017 as the legal procedure is long and complicated.

The Committee directed Commissioner General of Registration of Persons and the CEO, Managing Director ICTA, to refer this matter to Attorney General and obtain his observations in this regard.

The Committee was of the opinion that, when the personal data collected by the Department of Registration of Persons, are shared among other institutions the privacy of the person should be absolutely safeguarded and directed the CEO, Managing Director ICTA, to consider this matter seriously.

The Commissioner General of Registration of Persons, stated that these types of data could only be shared only on a court order or with the consent of the relevant person.

The CEO, Managing Director, ICTA stated that a Citizens Data Management Committee has been established and that such needs to be formalized and brought into as provisions of particular act.

The Committee also directed the Auditor General to conduct a system Audit.

Registrar General's Department

Registrar General explained the present status of the IT system of the Department of Registrar General and enlighten the Committee on the following;

- A new software is being tested in Colombo Head Office.

- Electronic Registration of Births, Marriage and Deaths has been commenced.

- Electronic Registration of Lands has recently started and 05 Land Registration offices had been covered. (approximately 6%)

- 22 land registration offices targeted to be covered within this year.

- In the 2nd phase, existing deeds would be scanned and add to the data base and electronic registration of new deeds could be commenced.

- Scan image stores in three different locations in the system in three different servers, as a security measure. Therefore, deeds are 100% secured and no room to misplace.

- The system has two connections with Inland Revenue Department, on the stamp fees paid by the public in registration of deeds and the details of documents provided for registration of the property.

The Committee inquired the damages caused to the deeds due to the natural causes and misdeeds of persons in the recent flood situation. The Registrar General informed that situation would be prevented by installation of CCTV cameras in land registry offices.

The Committee directed the Auditor General to conduct an audit trail and to study the productivity of the investment and to look into general controls and application controls of the system.

Colombo Municipal Council

The Commissioner the Colombo Municipal Council explained about the present status of existing IT system of the Colombo Municipal Council.

- All Internal activities have been computerized.

- Tax division, tax collecting process, planning division to be computerized within 06 months.

- If the checklist is completed, building plans could be approved, within 02 days.

- Tax can be paid online. Credit card payments are accepted. However online payment is not popular due to the 2% commission charges.

- Stores are monitored separately by a bin card system.

- So far 150,000 property details had been computerized.

- ¼ of the total income of the Colombo Municipal Council comes from assessment of rates. (Rs. 12 billion)

- As the existing assessment valuation system can lead to lot of irregularities. There are possibilities of occurring fraud situations.

- No mechanism to collect tax from the unauthorized constructions.

- Assessment Notice should be generated within the system to avoid irregularities.

- Assessment should be done through the Valuation Department.

The Committee inquired the best practices followed by the other countries on taxation and revenue collection mechanism and directed the Commissioner to consider such systems also.

The Committee directed the Auditor General to conduct a random audit on property assessments and report to the Committee within a month.

The Import & Export Control Department

- Preliminary arrangements have been done to issue licenses online with the coordination of twenty eight organizations.

- At the inception, five institutions had been recognized to initiate the system. They are NMR, TRC, CEA, Pesticides Department and the Excise Department.

- By the 01st of October, it has been planned to obtain the recommendation letters online from these institutions.

- It is expected to issue applications online by the 1st quarter of 2017.

- Quotations have been called from the Moratuwa University and a consultant had been appointed for this purpose.

On inquiry by the Chairman, the Controller General explained that if the recommendation letters are ready, the licenses can be issued within ½ an hour after implementing the online system as the time consumed for the data feeding and checking is minimized. The customer too can have an update on the status of the processing of their applications and the deficiencies if any.

Controller General further stated that it is expected to improve the re-engineering process with the collaboration of the ICT Consultancy by December 2017 enabling the customer to obtain the license without coming to the Department.

The Committee inquired whether the payment charged by the Department should be a license fee or a tax as the fee is levied on the value of the consignment. The Committee directed the officials of the Department to forward the issue to the Ministry of Finance.

The Program Manager of ICTA explained that, as the Department of Exports and Imports Controller and Sri Lanka Customs are working on interconnected processes, there is a possibility of improving the efficiency, if the process improvements or re-engineering study is conducted.

Deputy Auditor General inquired as to whether there are facilities in the Department for doing internal and system audits. Controller General statedthat though many requests have been forwarded to the Ministry of Public Administration for recruiting a System Analyst and an Internal Auditor, the Department was not provided with the services of these officials. She further stated that the revenue audits are done daily and facilities can be provided if a system audit is required.

The Department of Agriculture

The Department had finalized the E-Agriculture Strategic Guide in which a policy had been introduced to utilize ICT in agriculture.

However, the process of reengineering had not been introduced to the National Quarantine Service yet. The process of providing information to the farmers through mobile applications and websites is in progress at present. Issuance of permits for import of plants and plant products are done without charging any payments a payment is charged for the issuance of export permits the processes are done manually.

Sri Lanka had been selected as one of the 16 countries for the deployment of issuance of certificates for export products through electronic system under WTO. Initiatives had been taken to introduce the IT system in issuing import permits with the assistance of the IT Department of the Agriculture Department.

On inquiry, Deputy Superintendent of Customs stated that the under ASYCUDA System, certain institutes had been provided with the connectivity to the Sri Lanka Customs as a Single Window Project. **The Plant Quarantine Service** is also included in the pilot project.

- In this process, the Quarantine Officer can send the approval to the Sri Lanka Customs electronically.

- If all the necessary information is provided there is no objection, the consignment can be released without a physical examination under this system.

The Chief Quarantine Officer informed that,

- In animal product exports an International Health Certificate is issued.

The importer can apply for approval online, but when the product was imported original documents have to be submitted. Two items have already been included in the ASYCUDA system.

- A two weeks period is spent to release the consignment until the testing is done.

- Plant quarantine is a legislative procedure taken to prevent the introduction and spread of alien pest into new areas.

- In Sri Lanka, legal background of the plant quarantine activities is mainly governed by the Plant Protection Act NO. 35 of 1999

certified on 7th Oct. 1999 which is an Act of Parliament to make provisions against the introduction into Sri Lanka and the spreading therein of any organism harmful to or injurious to or destructive of plant and for the sanitation of plant in Sri Lanka.

- The regulations (The gazette of the Democratic Socialist Republic of Sri Lanka. No. 165/2-Monday, November 02nd 1981) made under the Plant Protection Act prohibits or restricts the importation of some plants and plant products into Sri Lanka to prevent introduction of alien pest and to protect our agriculture, agriculture based industries and biodiversity in the country.

    e.g. To protect our rubber plantation from the South American Leaf blight (at present not present in Sri Lanka and which has been identified as a destructive disease to the rubber plantation,) importation of any material capable of further growth or propagation and originating in the American tropics or in any country in which south American Leaf blight is prohibited.

- Introduction of alien pest not only destroy our agriculture but also affect to export of agricultural products to other countries.

- At present Sri Lanka is free of the pest of Kedungdung and palm lethal yellowing of coconut plantations. Import requirements of the coir products to some of the western countries request country freedom of said pest for coir consignments. Now, we are in position to fulfill those requirements since the country is free of those pests. However, if it is introduced through a consignment from a country where it is present, it will be directly affect the coir export industry in the country.

- Also, there are some nematodes that infect rooted plant still not yet present in Sri Lanka and several countries such as Japan, Korea and EU require area freedom for these pests. If they are introduced into our soil, then, our exporters will not be able to send plant into those designated countries.

- On the other hand, Sri Lanka is a member of the international Plant Protection Convention which is the international cooperation in the protection of plant and plant product from harmful pests. Further Sri Lanka signatory to the Montreal Protocol bound to protect environment and biodiversity.

- Importation of plant and plant products is also limited by the Forest Act No 65 of 2009, Forest conservation ordinance, Fauna and Flora protection Ordinance, and convention of biodiversity in Sri Lanka.

Department of Motor Traffic

- The registration of motor vehicles, transfer and issuing of driving licenses are done by the ICT system.

- The online facilities will be provided to 17 districts in the near future.

- E-motoring project will be launched this year.

- To obtain the services without coming to the offices, especially when the vehicles are imported to log online to the database of the Department and to obtain the registration at the Customs are expected.

On inquiry by the Committee, Deputy Auditor General expressed the view that there is a possibility of altering the information furnished by the Customs when the registration is done at the Department of Motor Traffic. According to the Customs, the ASYCUDA system is connected both to the Government Audit system and the internal audit system. If any error is done, that error is recorded in the system and no alteration can be done. But as there is a human intervention between the release of the vehicles and the registration, a system should be developed to electronically communicate the information.

Assistant Commissioner (IT) explained that when the details of the release of vehicles are included in the database, mistakes can be done and discussions had been initiated with the

Director General of Customs to rectify this issue. He further stated that

- The Cabinet had approved the implementation of the E-Motoring Project under the BOT system.

- The procurement documents have already been prepared.

- BPA validation will be done before the implementation of the E-Motoring project.

- At present SMS, mobile and online facilities are provided to the customers. Deputy Auditor General was of the view that the new system should be established with the facility for audit trails.

The Committee focused its attention on the problem of vehicle waste and the electronic items waste like computers which would be a burning problem in future. The Committee resolved that innovative remediesshould be taken to mitigate the problem as the control of importation of vehicles would not suffice. Also the Government should

take a policy decision regarding the imported vehicles and introduce new legislation.

The Committee was of the view that the way of payments are done in the importation of vehicles is inefficient as only the state banks are involved in the process. According to the Sri Lanka Customs the Central Bank is having discussions with Lankaclear (Pvt) Ltd., to change the process. Head of Bank Services, Lankaclear (Pvt) Ltd., stated that;

- The Central Bank had instructed to commence the project implementation by Lanka Clear (Pvt) Ltd.

- Put up a RFP

They had received a response for RFP.

They are in the process of obtaining approval of the Central Bank.

Officials of the Bank of Ceylon stated that the private banks too can be provided with the facility to make payments electronically through BOC.

The Committee inquired on the process of giving demerits to the drivers which will be inserted to the chip of the driving license.

- As the police and the Courts are involved in the process the facility should be provided to them as well.

- Proposals had been forwarded to amend the legislation.

On inquiry whether the medical certificate issued to the applicant could be generated to the system from the institute which it is issued, Mr. A.L.K.M.M. Bandara explained that the process is possible with the Real Time Data Integration and the Validity Authentication.

- The process of providing information to the farmers through mobile applications and web sites is in progress at present

- Sri Lanka had been selected as one of the 16 countries for the deployment of issuance of certificates of export products through electronic system under WTO.

- Initiatives had been taken to introduce the IT system in issuing import permits with the assistance of the IT department of the Agriculture Department.

On inquiry, Deputy Superintendent of Customs stated that the under ASYCUDA System, certain institutes had been provided with the

connectivity to the Sri Lanka Customs as a single Window Project. The Plant Quarantine Service is also included in the pilot project.

- In this process, the Quarantine Officer can send the approval to the Sri Lanka Customs electronically.

If all the necessary information provided there no objection, the consignment can be released without a physical examination under this system.

Food Control Unit of the Health Ministry

The major responsibilities and functions of the unit include ensuring the food safety to the nation and thereby preventing the ill health and promote health, preventing misleading food promotions thereby safeguarding the consumer and taking appropriate action when food safety issues arise, Iodine Deficiency Disorders Elimination Programme, Dealing with international Food Standards Commissions and dealing with the World Trade Organization and Phytosanitary Agreement.

- The FCU is also subjected to internal and general audits

- Food Act No. 26 of 1980 and Amendments thereto, Regulations maid under the Food Act and other legal enactments formulates the regulatory farm work of the Unit.

- When carrying out its duties the FCU is required to connect with other institutes such as the Sri Lanka Customs, Government Analyst and other food laboratories and MOH and health institution.

- When food items are imported to Sri Lanka, they are inspected by the FCU, necessary testing is done and the recommendations are made.

- There is no IT Management system due to the lack of office space and human resources and other issues.

- In addition to the Audit Management, IT is required for the food poisoning notification and investigation, food laboratory network, domestic food manufactures licensing, food import data, Single Window Concept at ports of entry and revenue collection.

Observations by the Committee

The FCU to work with the Customs and develop a Risk Management System and communicate electronically, thereby enabling legitimate trade is cleared faster and illegal trade is addressed in a more effective and efficient manner.

Sri Lanka Standard Institute

The function carried out by the institution are providing services in respect of standard formulation (SLS mark), import inspection with regard to 120 items before they are released, System Certification (Management system such as ISO 9000 and ISO 14000 are issued), Laboratory Calibration Services for equipment, Laboratory Services for industries to test their products, training to industries for quality management.

SLSI have connections with other institutions such as Customs, when import inspections are done and Product Certification in respect of giving approval for drinking bottled water to the Ministry of Health.

IT usage in the services provided by them.

- Currently, standard way of providing services through IT is not available.

- IT is used at divisional level.

- It is expected setup a IT system particularly when working with external institutions such as Sri Lanka Customs

- The institution is now connected to ASYCUDA System.

- The decision taken by the Quality Assurance Division of SLSI with regard to the imports was transferred to Sri Lanka Customs manually. But they have access to the ASYCUDA System at present to transfer the decision electronically to Sri Lanka Customs

- Another tool has been provided by Customs to make the process easier. However it is still in testing stage.

- No other specific online transactions prevailing.

- The redesigning of the web site has been outsourced.

- The customers will be in a position to pay online for services provided by them within 3-4 months.

- The major issue prevailing is that there is no integrated management information system which is interconnected with other divisions.

- A project will be launched to develop the system with the assistance of a consultant.

- IT infrastructure has to be improved.

- Future Plans

- To implement the projects of developing and integrated management system and the improvement of IT infrastructure.

- IT division would be developed.

The Bank of Ceylon

- In import and export payments, the Customs can pay online or coming to bank.

- The validation is done.

- The payment is sent online to the Customs.

- The Customs validate the transaction by an internal system and if the information received by then is not tallying the transaction is rejected.

- Acknowledgement is received from the Customs.

- Reconciliation is done by the Customs with the assistance of the reports furnished by the BOC.

Questionnaire and answers

1. **Additional information submitted by customs in response to the questionnaire sent to them by the Committee**

   - **What is the total number of consignments, in terms of Customs Declarations (CUSDECs), Imported during 2015 and first half of 2016?**

     Number of declarations imported during 2015 and the first half of 2016 is as follows

     Year 2015 :   619,140 *Customs Declarations*

     First half of 2016 :   296,784*Customs Declarations*

   - **What is the total number of imported consignments cleared without documents verification/examination during 2015 and first half of 2016?**

     o No consignment is cleared without document verification or examination. However, a part of a consignment may be released without examination.

   - **What is the total number of imported consignments cleared without cargo verification/examination during 2015 and first half of 2016?**

     o The answer is same as above. No consignment is ~~been~~ being released without cargo examination. However, a part of a consignment may be released without examination.

   - **What is the total number of consignments detected as illegal imports during 2015 and first half of 2016 (including those under investigations at present)?**

     o Total number of Customs cases registered in 2015 are 10,436 and in 2016 first half it is 2084.

   - **What is the total amount of recoveries from illegal trade during 2015 and first half of 2016?**

     o Total amount of recoveries for 2015 is Rs. 5,021,583,233.40 and for 2016 it is Rs. 2,719,568,711.

- **What is the total revenue collected from imports during 2015 and first half of 2016?**

  The total revenue collected from imports during 2015 and the first half of 2016 is as follows;

  Year 2015 :   Rs. 625,378,027,967 *(including VAT)*

  First half of 2016:   Rs. 350,327,074,542

- **What is the Risk Management System in place to facilitate the legitimate trade and combat illegal trade?**

  o   Import Risk management system is automated.

- **What is the objective and the current position of Single Window System?**

  o   The objective of the single window is to connect all regulatory agencies in order to receive approvals and the licenses electronically. The current status is that the Custom is ready but most of the regulatory agencies are not computerized.

2. **Additional information submitted by the Import and Export Control Department in response to the questionnaire sent to them by the Committee**

   • **What is the total number of consignments that required Import Control License (ICL) during 2015 and first half of 2016?**

   The total number of Import Control Licenses which have been issued in 2015 and first half of 2016 are given bellow:

Period	No of ICL
2015 (01.01.2015 – 31.12.2015)	14,927
2016 (01.01.2016 – 30.06.2016)	7,112

   • **What is the breakdown of above, in respect of the Recommending Authority? E.g. Number of consignments of pesticides that required ICL on the recommendation of Registrar of Pesticides**

No	Recommending Authority	No of Licenses
1	Telecommunication Regulatory Commission	3831
2	National Drug Regulatory Authority	2106
3	Department of Animal Productions and Health	1974
4	Registrar of Pesticides	1427
5	State Trading Corporation	1106
6	Ministry of Petroleum and Petroleum Products	945
7	Marine Environment Protection Authority	414
8	Department of Excise	334
9	Department of Ayurveda	300
10	Other (49 agencies)	2490
	Total	**1492**

   • **What are the roles of the Recommending Authority and the Customs in clearance of consignments under ICL?**

   Prior to obtain ICL, recommendation letter will be issued by the relevant recommending authority. After arrival of goods all the documents including Import Control License and the samples will be checked by the Sri Lanka Customs before releasing such consignment to the importer.

- **What is the current procedure adopted to work with Customs and Importers for clearance of import consignments? What steps have been taken to improve the system through ICT?**

  Goods can be imported after issuing the ICL to the importer. Once the license is obtained the importer is eligible to import such goods. After arrival of goods the consignee should produce CUSDEC through Sri Lanka Customs "ASYCUDA" online system. Then the CUSDEC and other relevant shipping documents should handover to Imports and Exports Control Department for debit purpose. After debiting the ICL they should produce all the documents to Sri Lanka Customs for clearance.

  License issuing and debit system of Imports and Exports Control Department linked with Sri Lanka Customs ICT system to exchange the license and debit details.

- **What is the Risk Management System in place to facilitate the legitimate trade and combat illegal trade?**

  Import and export control commodities and the ban items have been published through Extraordinary Gazette Notifications under the Imports and Exports Control Act No. 1 of 1969. If a person is going to import such items without having ICL or banned items, such consignment automatically being forfeited by Sri Lanka Customs.

  In order to implement payment terms regulations,

  The advance payment amount has been limited up to USD 50000 or its equivalent foreign currencies and if the advance payment amount exceeds USD 50000 it is necessary to submit foreign bank guarantee or should transfer the advance payment amount through FCBU Account.

  Motor vehicles should be imported only establishing Letter of Credit if it allowed satisfying all the requirements needs to fulfill in importation of vehicle.

  All the commercial banks direct importers to obtain approval from Imports and Exports Controller General to release documents if there are discrepancies in shipping documents.

  Every Extraordinary Gazette Notifications deliver to all commercial banks as "Operating Instructions" to make them aware of import control regulations.

  As per the directions of the Committee on Public Accounts and the provisions of the Imports and Exports Control Act No. 1 of 1969, a decision has been taken to establish an Investigation Unit to monitor the illegal trade.

- **What is the policy on issuing ICL for used motor vehicles? What is the current position of consignments covered under ICL imported by the BOI companies?**

  The policy of issuing ICL for motor vehicles is already submitted by the Ministry of Development strategy and International Trade. There is no special method to issue ICL for BOI Companies. The process of issuing ICL is same as the other companies. (Non-BOI companies)

- **What are the charges recovered by the Department from the importers? What is the policy/rational of such charges?**

  Imports and Exports License Fees and other charges have been published in the Extraordinary Gazette Notification by the virtue of the powers vested by the Hon. Minister under the Imports and Exports Control Act No. 1 of 1969.

3. The Quarantine Division of the Agriculture Department has responded to the questionnaire sent by the Committee in the following manner.

- **What is the total number of import consignments that required approvals from the Department during 2015and first half of 2016?**

Year -	No of import permit approved
2015	3220
2016 (Up to June)	2034

- **What is the current procedure adopted to work with customs and importers for clearance of import consignments? What steps have been taken to improve the system through ICT?**

  - Notification of arrival by the Airline or the importer.

  - The importer should get the custom entry after the document checking related to import.

  - Thereafter, the consignment is referred to plant Quarantine for their determination.

  - On arrival of the consignment, the importer should provide the details of the import to the plant quarantine inspector at the port of entry who will give the necessary advice for clearance using the plant import entry form.

  - The consignment shall be inspected by a plant quarantine officer after checking the required documents (Phytosanitary certificate, Fumigation certificate, health certificate, ISTA. Non GMO etc.)

  - If the importation is legal and the permit conditions are fulfilled, the consignment is subjected to release.

  - If deemed necessary, the consignment is subjected to further testing and if free of pest the consignment is subjected to release after fulfilling the entry requirement.

  - If deemed necessary, the consignment is subjected to treatment prior to release.

  - Entry into Sri Lanka may be denied due to absence of required approval and certificates and if the plant or the plant product carry dangerous pathogens, insect pests, mites, nematodes or weeds.

  To improve the System?

  Training of plant quarantine officers of identification of dangerous pest, on requirements of our trading partners, improving the facilities,

computer networking etc. is of utmost importance for our country to compete in the foreign markets.

- **What is the risk management system in place to facilitate the legitimate trade and combat illegal trade?**

  For legitimate trade

  It is a requirement that an import permit should be obtained for any importation of plants and plant products into Sri Lanka. Once a person applies for a permit and if it is in order and not a prohibited item, a permit will be issued within two weeks. The permit is valid for 3 months and perhaps this will be extended for another 3 months under specific circumstances.

  Permit gives the specific conditions about the pest freedom of the consignment and exporter at the other end and the importer is responsible for fulfillment of those conditions. The imported consignment must be accompanied by certificates esp. phytosanitary certificate, International Seed Testing Association (ISTA) certificate, non-Genetically Modified Organisms certificate etc.

  Consignment of imported plant and plant products will be inspected by Plant Quarantine Officers. If there is necessity, the material will be tested for pest which may include laboratory testing. Sometimes the consignment will be subjected to specific treatments to kill the possible invading pests.

  For illegal trade

  Any illegal imports will either be destroyed or send back to the country of origin.

- **Is there any mutual recognition agreement / system in place with the exporting countries to facilitate legitimate trade?**

  Yes.

  - According to ISPM 12 issues the phytosanitary certificate with fulfilling the import requirements of the importing country related to regulated pest concern.

  - Signing MOU between countries

  - Direct contact to share information among NPOs

- **What is the current position of relevant consignments imported by the BOI companies?**

  Some of the BOI companies import the consignment according to the plant quarantine regulations.

- **What are the charges recovered by the department from the importers? What is the policy /rationale of such charges?**

  The charges were prescribed in the Gazette notification in November 02, 1981. They were very minimal and laughable; e.g. Plant quarantine charges only Rs. 12/- for a phytosanitary certificate. Import permit is issued free of charge.

  Import inspection charges Rs. 150/- per consignment at the PQS Airport. These charges for plant quarantine inspection to identify the pest which is a scientific activity. However this charges is not considered for the consignment at the seaport since the importer pay charges to the yard at the port premises.

4. The Food Control Unit of the Ministry of Health has responded to the questionnaire sent by the Committee in the following manner.

- **Legal basis and objective of examination / verification of food imports:**

  Food Act No.26 of 1980 covers the importation of food among other things. Food Act regulate and control the manufacture, import, sale, expose for sale, store or distribution of any food.

  The Director General of Health Services is appointed by chief food authority by the act. The Director General of Health Services has nominated competent Authorized Officers to the Imported Food Inspection Units (IFIU) at the points of entry of food into the country.

  The objective of import inspection is primarily to protect the consumers within the country from detection effects of contaminated, substandard food.

- **Total No. of import consignments required approvals from the Health Ministry in 2015 and first half of 2016:**

Year	Consignments
2015	39,495
First half of 2016	22,814

- **Procedure adopted to work with the Customs and Importers: Steps taken to improve the system through ICT:**

  Routinely the Customs refers the food consignments to the Imported Food Inspection Unit for an initial assessment of the nature of the product and further investigations (including laboratory analysis of samples if warranted) and make recommendation to the Customs relating to the compliance level of the consignment, either to release consignments or detain consignments for further investigations / action and keep the Chief Food Authority apprised of such action. Consignments are been sent out panel or in panel by the customs. In panel consignments come to imported Food Inspection Unit for joint inspections with customs and obtain samples according to predetermining sampling schedule, sampling plan according to the commodity.

  Steps taken to improve system through ICT: A ICT System under the ASICUDA system exists under the Department of Customs. This has not been extended to the Imported Food Inspection Unit so far although computers have been installed in the Units and an initial training was provided to the officers. Importers are informed through the Clearing

Agents regarding the issues arising, if any, that could cause possible delays and the action that should be taken by the importer to expedite the clearing.

- **System adopted with regard to the consignments which require approvals from the SLSI as well:**

  There are 120 items covered under the Import Inspection Scheme of SLSI as per the Extra Ordinary Gazette Notification no 1844/49 dated 2014.01.08 issued under the Import & Export (Control) Act No 01 of 1969. Imported Food Inspection Unit avoid sampling if SLSI take samples on as much as possible final recommendation to custom made by Imported Food Inspection Unit officers subjected to SLSI reports. However Imported Food Inspection Unit reserve the right to draw samples on it's or if thought necessary.

- **System in place to facilitate legitimate trade and combat illegal trade:**

  Initially, the documents attached (Certificate of Origin, Quality Assurance, Load Port Survey Certificate, Health Certificate, Phytosanitary Certificate etc., wherever appropriate to the consignments) to the clearance applications are scrutinized to ensure the authenticity of themdetermine whether random inspection or detail inspection necessary and action taken accordingly. With regard to Risk Management to food items are basically categorized into three Viz; High Risk, Medium Risk and Low Risk. High Risk Products are subjected to detail inspection, medium risk products are less detail inspection and low risk products are subjected to random inspections. If High Risk Products so inspected consistently show satisfactory result the inspection regime is relaxed to only a vigilance inspection. If on the other hand adverse conditions are reported from the field surveillance relating to a high risk product, the inspection, sampling and analysis of that product is intensified. No mutual agreements have been communicated to the Food Control Administration. So far no system in place to recognize affiliated laboratories in the exporting countries.

  Customs recognize genuine importers from their recordings and deal appropriately.

- **Current Position of relevant consignments imported by the BOI Companies:**

  The Customs Authority decides on the nature of companies and the privileges enjoyed by them. Apparently most consignments are released direct to the consignees and some are referred to the IFIU for examination. They are subjected to normal examinations and follow up if necessary.

- **Charges recovered by the Department from the importers:**

  No charges are levied for the inspection procedures. However, if samples are drawn for laboratory analysis, the charges levies by laboratory are borne by the importers.

5. **The Sri Lanka Standard Institute has responded in the following manner to the questionnaire**

- **What is the legal basis and the objective of standards verification of those selected imports?**

   The regulations are framed under the Import and Export Control Act. The current Regulation is the import (Standardization and Quality Control) Regulation published in Gazette Extraordinary No 1813/14 dated 08th January 2014. The objective of standards verification is to ensure that the products identified conform to the Sri Lanka Standards so that customers are protected.

- **What is the total number of import consignments that required approval from SLSI during 2015 and first half of 2016?**

   In 2015 :   16162 consignments

   In 2016 January to June: 9455 consignments

- **What is the current procedure adopted to work with the Customs and importers/ what steps have been taken to improve the system through ICT?**

   We are working with Customs to implement the "Single Window" concept. A VPN connection was established to connect with Customs and a trial was carried out which was found to be satisfactory. However, in order to get the additional information that is required by SLSI which is not available in CUSDEC and also to facilitate the importer to send the required documents to SLSI electronically, Customs developed a web service. The feedback on the system would be communicated to Customs during this week to further develop the system.

   Further, with the modification of the SLSI website which has already been initiated, SLSI is working towards electronic payment system.

   SLSI has felt the need for automation of the activity for successfully implementing the single window system and also to enhance the efficiency of the activity while enhancing the use of risk based approach. SLSI has already forwarded a proposal to Customs to be submitted to the World Bank a mission of which is expected to visit during this month in relation to implementing the Trade Facilitation Agreement.

- **How do you work with the Health Ministry with regard to the consignments which require approvals under the Food Act as well?**

   While the Health Ministry is responsible for ensuring quality including safety, of all food products which is enormous in number, inclusion the certain food items under the Import Inspection operated by SLSI enables

a very close monitoring of the products under the scheme. A very good example is canned fish.

SLSI while operating the Import Inspection Scheme not only assesses whether the food products conform to the relevant Sri Lanka standards but also ensures that the products conform to the Regulations imposed under the Food Act. SLSI closely works with the Health Ministry in issues related to such products (as well as food other products with which SLSI deals with through other certification schemes). Special meetings are also convened whenever necessary. Also, SLSI works in cooperation with the Health Ministry to ensure that duplication of work does not happen. Further, SLSI is a member of the Food Advisory Committee of the Health Ministry. Necessary policy matters are also brought to the Health Ministry through this forum.

Any rejection/issue associated with consignments are notified to the Health Ministry in writing. It is noted that Customs ensure that necessary approval from the Health Ministry is also obtained for products coming under the Food Act,

- **What is the Risk Management System in place to facilitate the legitimate trade and combat illegal trade? Is there any Mutual Recognition Agreements/Systems in place with the exporting countries to facilitate legitimate trade/ is there a system in place to recognize the certificates issued from affiliated laboratories in the exporting countries?**

  The main objective of the scheme is to ensure that the goods are in conformity with the relevant Sri Lanka standards. Accordingly, under the following situations, consignments are released for sale without sampling to facilitate legitimate trade, subject to drawing samples from randomly selected consignments only for verification purposes. In such situations, consignments are released for sale after sampling.

  a) When the consignment is accompanied with a test certificate issued by an accredited laboratory in the exporting country in accordance with the Sri Lanka standard.

  b) When the product bears the product certification mark of the exporting country where the standard used for certification is comparable with that of the Sri Lanka standard.

  c) When the product is from a registered manufacturer which has been registered with SLSI based on satisfactory past performance and having ISO 9001 Quality Management System certification or in case of food products ISO 22000 food safety certification. Manufacturers own certificates are accepted in such situations.

The risk based approach is used in deciding the frequency of sampling in case of above situation as well as number of satisfactory consignments to be considered for manufacturer registration. Further, the risk associated with the product is also considered for deciding the action to be taken in releasing consignments.

- **What is the current position of relevant consignments imported by the BOI companies?**

Following two situations are experienced in operation of the scheme and actions are taken as indicated therein:

a) Raw materials imported by a BOI company for re- export: These products are released for sale without conformity assessment.

b) Products imported for construction of a BOI company; After getting adequate evidence that the goods are for a BOI project, the consignments have been released without checking for quality in order to facilitate BOI activities subject to drawing of samples from randomly selected projects. The data thus collected would be used for review of the decision in future, in consultation with the relevant stake holders.

- **What are the charges recovered by the Department from the importers? What is the policy/ rational of such charges?**

Charges are recovered for notification processing, inspection, and transport and testing. Fees related to manufacturer registration – Application processing and registration fee. Fees related to laboratory registration – Application processing (in case of audit where the laboratory is not accredited) -All expenses (i.e. air fare, accommodation, audit charges, government approved per diem rates, visa fees)

Charges are for cost recovery purposes for the services rendered.

6. The Board of Investment of Sri Lanka has responded in the following manner to the questionnaire sent by the Committee

• **What is the total number of consignments, in terms of Customs Declarations (CUSDECs), Imported during 2015 and first half of 2016 through BOI?**

Total no of import CUSDECs for 2015and first half of 2016 through BOI are 233, 320 and 114,169 respectively (Annexure 1)

• **What is the total number of imported consignments cleared without documents verification/examination during 2015 and first half of 2016?**

BOI companies are required to submit all necessary hard copies of import shipping documents along with the import CUSDEC. No any consignment can be cleared without document verification at present.

• **What is the total number of imported consignments cleared without cargo verification/examination during 2015 and first half of 2016?**

Total No of import consignment cleared without cargo verification/ examination during 2015 and first half of 2016 are 12,536 and 6,385 respectively. (Annexure 1I)

• **What is the total number of consignments detected as illegal imports during 2015 and first half of 2016 (including those under investigations at present)?**

BOI has not detected any illegal imports during 2015 and one import consignment by M/S Concord Apparel (pvt.) ltd has been detected in June 2016 and Sri Lanka Customs is conducting an investigation in this regard at present.

• **What is the Risk Management System in place to facilitate the legitimate trade and combat illegal trade?**

Sri Lanka Customs has implemented Risk Management System with regard to imports. BOI imports are also screened through this system.

• **What is the current position of Single Window System?**

Single Window System is handled by Sri Lanka Customs at present. A proposal sent to Hon. Minister of Finance by Advisory Committee on Trade facilitation of EDB is annexed for your information.

- **What is the current legal position and procedure adopted for clearance of imports and exports that are restricted under other Acts, (e.g. Import and Export Control Act)?**

  BOI companies are also required to obtain prior approval/permit/license as specified in the National Tariff Guide as Import Export Control License (ICL)/ Export Permit published by Policy, Planning & Research Directorate of Sri Lanka Customs.