

Customs Officers' Management and Compensation Fund - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Customs Officers' Management and Compensation Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.2,526,551 spent on a construction work without ownership to the Department or to the Fund had been brought to account as fixed assets of the Fund and as such, the buildings and equipment had been overstated by a sum of Rs.2,526,551.
- (b) A sum of Rs.400,000 which should be brought to account as expenditure on postgraduate courses had been brought to account as local training expenditure while a sum of Rs.65,000 which should have been brought to account as local training expenditure had been brought to account as foreign training expenditure.
- (c) The Depreciation Account and the Depreciation Provision Account on the library books had been understated by a sum of Rs.31,552 due to errors in computation.

- (d) Computers and accessories valued at Rs.55,026,631 purchased during the year had been debited to the Furniture and Office Equipment Account instead of debiting to a separate account.

1:2:2 Lack of Evidence for Audit

The following evidence were not furnished to audit.

- (a) The Register of Fixed Assets, detailed schedules, physical survey reports, etc. in support of the fixed assets valued at Rs.61,457,369 shown in the financial statements had not been furnished to audit.
- (b) Even though a sum of Rs.21,915,698 had been spent in the year under review for foreign training and seminars, the officers who participated had not furnished the report on the progress of training received in 11 instances, to audit.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operating surplus of the Fund for the year under review amounted to Rs.322,866,312 as compared with the corresponding surplus of Rs.232,622,256 for the preceding year, thus indicating an improvement of Rs.90,244,056 in the financial result. The increase of the fines income of the Fund by 292 per cent and the decrease of the expenditure on the local and foreign training programmes by 23 per cent as compared with the preceding year had mainly affected the improvement of the financial result.

3. Operating Review

3:1 Performance

According to the information made available, an analysis of the financial results of the Fund for the year ended 31 December 2012 and the preceding year is given below.

| Income | Year | Year | Increase/ (Decrease) | | Expenditure as a | |
|----------------------|---------|---------|----------------------|---------|----------------------|-------|
| | 2012 | 2011 | | | Percentage of Income | |
| ----- | ----- | ----- | ----- | | ----- | |
| | | | | | 2012 | 2011 |
| | Rs.000 | Rs.000 | Rs.000 | % | % | % |
| Fines and Sale of | | | | | | |
| Seized Goods | 361,769 | 281,485 | 80,284 | 28.52 | | |
| Other Receipts | 651 | 517 | 134 | 25.92 | | |
| Total Income | 362,420 | 282,002 | 80,418 | 28.52 | | |
| | | | | | | |
| Expenditure | | | | | | |
| ----- | | | | | | |
| Local Training | 10,460 | 12,233 | (1,773) | (14.49) | 2.89 | 4.33 |
| Foreign Training | 21,916 | 30,124 | (8,208) | (27.25) | 6.05 | 10.68 |
| Postgraduate Courses | 2,600 | -- | 2,600 | -- | 0.72 | -- |
| Total | 34,976 | 42,357 | (7,381) | 17.43 | 9.65 | 15.02 |
| Other Expenditure | 4,578 | 7,023 | (2,445) | (34.81) | 1.26 | 2.49 |
| Total Expenditure | 39,554 | 49,380 | (9,826) | (19.90) | 10.91 | 17.51 |
| Surplus | 322,866 | 232,622 | 90,244 | 38.79 | | |

The following observations are made.

- (a) Out of the income from the fines recovered on goods seized during customs examinations and 50 per cent of the sale of goods seized is allocated for the payment of rewards and 40

percent of the balance 50 per cent is credited to the Customs Officers' Management and Compensation Fund.

The main objectives of this Fund are as follows.

- (i) Meet the expenditure on local and foreign training for the improvement of the management effectiveness of the Customs Officers.
- (ii) Payment of compensation for accidents caused to officers.

An annual increasing trend in the accumulated balance of the Fund was observed due to the allocation of money to the Fund without identifying the specific criteria for the improvement of the management effectiveness of the officers and for the payment of compensation to the officers. As such, the balance of the Accumulated Fund of the Fund as at 31 December 2012 amounted to Rs.3,410,133,201. In addition, the overall utilization out of the money allocated to the Fund in the years 2011 and 2012 had been 17.51 per cent and 10.91 per cent respectively.

- (b) An examination of the expenditure of two preceding years revealed that this Fund had been utilized primarily to cover the cost of the foreign training undertaken by the officers. Out of the income earned during the preceding year and the year under review, 10.68 per cent and 6.05 per cent respectively had been spent on the foreign training and those represented 61 per cent and 55 per cent respectively of the expenditure of those years. Nevertheless, the cost of foreign training out of the total expenditure of the year under review had decreased percentage-wise.
- (c) A sum of Rs.2,600,000 had been spent in the year under review for the postgraduate studies of the officers while expenditure had not been incurred thereon during the preceding year.

3:2 **Transactions of Contentious Nature**

A sum of Rs.2,526,551 had been spent from the Fund for the construction of a canopy for the protection of a stone inscription in a place of religious worship. That was observed as an expenditure contrary to the objectives of the Fund.

4. **Accountability and Good Governance**

4:1 **Budgetary Control**

Variance exceeding 30 per cent were observed between the actual and the budgeted income and expenditure of the year under review, thus indicating that the budget had not been made use of as an effective instrument of control.

5. **System and Controls**

Deficiencies in the areas of control observed during the course of audit were brought to the notice of the Director General of Customs from time to time. Special attention is needed in respect of the following areas of control.

- (a) Improvement of Management Effectiveness of Customs Officers
- (b) Fixed Assets Control
- (c) Utilization of Funds
- (d) Accounting
- (e) Expenditure Control

