

Customs Officers' Management and Compensation Fund - 2011

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 2011 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) The cost of fully depreciated buildings and fixtures amounting to Rs.1,221,626 and the accumulated depreciation provision thereon amounting to Rs.1,221,626 had been completely eliminated from the financial statements. Even though it was pointed out in the years 2009 and 2010 that those assets should be shown in the balance sheet at the written down value, instead of rectifying that in the year under review, the cost of fully depreciated library books amounting to Rs.791,036 and the provisions for depreciation thereon had also been eliminated from the books.
- (b) The over provision of depreciation amounting to Rs.193,853 in the year 2010 resulting from the depreciation provided on the fully depreciated library books, had not been rectified even during the year under review.

- (c) A sum of Rs.20,000 which should have been brought to account as charges of local seminars had been recorded as the purchase of library books. As such the balance of the Library Books Account had been overstated by a sum of Rs.20,000 and the balance of the Local Seminars Charges Account had been understated by that amount.

1.2.2 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted the audit due to the unavailability of the evidence indicated against each item.

Subject	Value	Evidence not made available
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	Rs.	
(a) Fixed Assets	1,902,804	i. Register of Fixed Assets ii. Physical Verification Reports iii. Detailed Schedules
(b) Assets eliminated from Books	2,012,662	

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.232,622,256 as compared with the corresponding surplus of Rs.274,925,879 for the preceding year, thus indicating a deterioration of Rs.42,303,623 in the financial results. The decrease of the overall income of the Fund by 8 per cent and the increase of the expenditure on the local and foreign programmes by 167 per cent as compared with the preceding years had been the reason for the deterioration of financial results.

3. Operating Review

3.1 Performance

According to the information presented, an analysis of the financial results for the year ended 31 December 2011 and the preceding year is given below.

Income	Year 2011	Year 2010	Increase / (Decrease)		Expenditure as a percentage of Income	
			Rs.000	%	2011	2010
	Rs.000	Rs.000	Rs.000	%	%	%
Fines and Sale of						
Seized Goods	281,485	305,601	(24,116)	(7.89)		
Other Income	517	300	217	72.33		
Total Income	282,002	305,901	(23,899)	(7.81)		
<u>Expenditure</u>						
Local Training and Seminars	12,233	2,859	9,374	327.87	4.33	0.93
Foreign Training and Seminars	33,926	13,374	20,552	153.66	12.03	4.37
Postgraduate Courses	-	10,800	(10,800)	(100)	-	3.53
Total	46,159	27,033	19,126	70.74	16.36	8.84
Other Expenditure	3,221	3,942	(721)	(18.29)	1.14	1.29
Total Expenditure	49,380	30,975	18,405	59.4	17.5	10.13
Surplus	232,622	274,926	(42,304)	(15.38)	-	-

The following observations are made.

- (a) Out of the income from the fines imposed on the goods seized from the Customs inspections and the sale of seized goods 50 per cent is allocated for the payment of rewards and out of the balance 50 per cent, 40 per cent is credited to the Customs

Officers' Management and Compensation Fund. The main objectives of the Fund are given below.

- Settlement of expenditure incurred on the local and foreign training conducted for the improvement of the management effectiveness of the Customs Officers.
- Payment of Compensation on accidents caused to officers.

Nevertheless, money has been allocated to this Fund without identifying the criteria for the improvement of the Customs Management Effectiveness and the payment of compensation to officers. As such an annual increasing trend in the accumulated balance of the Fund was observed. The balance of the Fund as at 31 December 2011 amounted to Rs.3,087,093,036. Out of the total allocations made to the Fund in the years 2010 and 2011, the overall utilization amounted to 10.12 per cent and 17.5 per cent respectively.

- (b) An examination of the nature of the expenditure of the two preceding years revealed that this Fund is utilized basically to meet the expenditure of officers following foreign training courses. Out of the income earned during the preceding year and the year under review, 4.37 per cent and 12.03 per cent respectively had been spent on foreign training and those represented 43 per cent and 69 per cent respectively of the total expenditure of those years. The foreign training costs in the year under review out of the total expenditure had increased percentage-wise.
- (c) Even though a sum of Rs.10,800,000 had been spent in the preceding year on the postgraduate studies of the officers, no expenditure whatsoever had been incurred on that during the year under review.

3.2 Expenditure Contrary to Objectives

It was observed that the sum of Rs.2,549,491 spent out of Fund on the Deyata Kirula Exhibition is an expenditure extraneous to the objectives of the Fund and that it represented about 5 per cent of the total expenditure of the Fund for the year 2011.

4. Accountability and Good Governance

Budgetary Control

Variances exceeding 50 per cent between the actual and budgeted income and expenditure of the year under review were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies 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 the Management Effectiveness of the Customs Officers
- (b) Fixed Assets
- (c) Funds Utilisation
- (d) Reconciliation Process
- (e) Foreign Travel Expenses