

## **Customs Officers Reward Fund - 2012**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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In my opinion, except for the effect of the matter 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 Reward 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**

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##### **1.2.1 Lack of Evidence for Audit**

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An age analysis of the balance of the Refundable Deposits Account as at 31 December 2012 amounting to Rs.17,136,884 had not been furnished to audit.

### **2. Financial Review**

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#### **2.1 Financial Results**

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According to the financial statements presented the operations of the Fund for the year ended 31 December 2012 had resulted in a surplus of Rs.47,599,048 as compared with the corresponding surplus of Rs.57,693,497 thus indicating a deterioration of Rs.10,094,449 in the operating results. The increase of expenditure on fuel by a sum of Rs.15,704,110 as compared with the preceding year had effected the decrease in the surplus.

### 3. Operating Review

#### 3.1 Performance

A 50 per cent portion of the Government tax revenue and penalties imposed on the Customs duty frauds, illegal imports and confiscated money, breach of regulations on import control detected by the Customs Officers, proceeds of the sale of confiscated goods, etc is credited to this Fund for the payment of rewards of the officers and the informants.

According to the information furnished, the particulars of income, expenditure and the net operating results for the year ended 31 December 2012 and the 6 preceding years is given below.

| Year  | Income        | Expenditure          |                       |  |             | Total Expenditure | Surplus / (Deficit) |
|-------|---------------|----------------------|-----------------------|--|-------------|-------------------|---------------------|
|       |               | Payments to Officers | Payments to Informers | Withholding Tax / Department of Inland Revenue | Others      |                   |                     |
| ----- | -----         | -----                | -----                 | -----  | -----       | -----             | -----               |
|       | Rs.           | Rs.                  | Rs.                   | Rs.  | Rs.         | Rs.               | Rs.                 |
| 2006  | 594,567,776   | 446,300,470          | 44,183,900            | 6,443,292                                      | 64,578,911  | 561,506,573       | 33,061,203          |
| 2007  | 1,171,679,881 | 810,441,327          | 72,757,307            | 105,428,768                                    | 111,382,303 | 1,100,009,705     | 71,670,176          |
| 2008  | 895,773,758   | 678,463,260          | 55,144,035            | 8,693,891                                      | 119,792,064 | 862,093,250       | 33,680,508          |
| 2009  | 968,064,233   | 716,618,818          | 84,506,905            | 9,132,859                                      | 113,226,650 | 923,485,232       | 44,579,001          |
| 2010  | 902,474,770   | 687,504,664          | 37,556,075            | 9,328,789                                      | 102,357,464 | 836,746,992       | 65,727,778          |
| 2011  | 873,979,003   | 574,047,509          | 106,080,370           | 33,927,845                                     | 102,229,782 | 816,285,506       | 57,693,497          |
| 2012  | 973,210,594   | 694,361,096          | 128,208,276           | 42,779,776                                     | 60,262,398  | 925,611,546       | 47,599,048          |

The following observations are made.

- (a) The income of the Customs Officers Reward Fund for the year under review, as compared with the preceding year had increased by a sum of Rs.99,231,591 or 11 per cent.
- (b) The payments made to the officers as rewards in the year under review amounting to Rs.694,361,096 as compared with the sum of Rs.574,047,509 paid in the preceding year indicated an increase of Rs.120,313,587 or 21 per cent. There were 60 list of rewards amounting to Rs.230,762,533 in respect of the year 2012 received by the Accounts Division and not paid even by 31 December 2012. There was also one list for Rs.1,606,592 relating to the reserve payments of the Policy Planning Division.
- (c) The Scheme for Distribution of Rewards among the offices and informers had been introduced by the Departmental Order No.118 issued in terms of Section 153(2) (b) of the Customs Ordinance and sums totalling Rs.2,227 million comprising Rs.725 million Rs.680 million and Rs.822 million had been distributed among the office and informants in the years 2010,2011 and 2012 respectively. Out of this, a sum of Rs.1,962 million or 88 per cent had been the rewards paid to the officers. It was observed that a maximum of the rewards payable had not been specified. As such there were instances of payment of rewards exceeding Rs.90 million per officer.

**(d) Narcotic Account**

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A part of the Rewards Fund is allocated to the Narcotics Fund without identifying the specific criteria and the balance of that as at 31 December 2012 amounted to Rs.57,990,812. Expenditure amounting to Rs.1,795,000 had been incurred from this Fund during the year under review.

**(e) Rewards Refund Account**  
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The balance of this account as at 31 December 2012 amounted to Rs.17,136,884. The money not collected by the officers from the lists of rewards issued by the Department from time to time is credited to this account. When the officers make subsequent claims for the money, such payments are debited to this account. Nevertheless, it was observed that proper steps had not been taken on the unsettled amounts remaining over long periods relating to the re-deposited rewards.

**3.2 Transactions of Contentious Nature**  
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The following observations are made.

- (a) Sri Lanka Customs had not taken in to consideration the instructors of the Commissioner General of Inland Revenues in recovering the Pay As You Earn Tax on the rewards paid to the officers. Action had been taken by considering the rewards paid as one off payment. But in the cases of payment in several instance, those had not been accumulated for the computation of the tax. In the case of payment of rewards in several instances, the Pay As You Earn Tax had been computed on that payment and the amount recoverable had been collected. As such large amount of tax revenue receivable by the Government had been deprived of to the Government. The unavailability of a proper procedure for the accurate computation of the tax due to the Government from the Customs officers receiving a number of allowances is a contentious matter. According to the computation on the payment of rewards made by the audit, such under recovery of taxes from 234 officers in the income tax year 2012/2013 amounted to about Rs.4,823,846.
- (b) Regulations have been made in such manner to enable the allocation of 50 per cent of the balance of fines income under Section 153(2) of the Customs (Amendment) Act, No. 83 of 1988 less all expenses. Accordingly, the overtime paid from the Customs Overtime Fund to all officers who conducted the investigation should be deducted from the fines income. It had not been so done and brought to account as an

- expenditure of the Customs Overtime Fund. As separate records of the overtime cost on the investigations had not been maintained, the overtime cost incurred on investigations could not be computed.
- (c) According to the prevailing system, the payment of rewards to the officers is not made only from the fines imposed on the parties involved in Customs Duty frauds, but also from 50 per cent of the duty receivable by the Government from those parties. As such the attention of the officers responsible for protection of the public Revenue had not been paid to that as per.
- (d) The prevalence of instances of the payment of rewards from the tax revenue and taken collected from various parties without conducting special customs investigation were pointed out in audit. The payment of a sum of Rs.3,964,847 to officers as rewards from the sum of Rs.7,929,693 recovered for the transfer of the ownership of 02 motor vehicles imported under the Carnet project to the parties who imported instead of re – exporting can be cited as an example.
- (e) A part of the Reward Fund is allocated to the Fuel Fund without identifying specific criteria and the balance of this Fund as at 31 December of the year under review and the preceding year had been Rs.182,653,578 and Rs.191,881,945 respectively. In addition to the provision of Rs.25,000,000 received under the Head of Expenditure of Sri Lanka Customs for the year 2012, this Fund had spent a sum of Rs.18,577,016 expenditure on fuel as done in the preceding years. The formal approval obtained in this connection had not been produced for audit. Out of the provision of Rs.25,000,000 made under the Departmental Head of Expenditure for fuel expenditure of the year under review, a sum Rs.8,019,349 had been transferred to an Object for the payment of allowance to officers. Such heavy expenditure incurred by the Fund for the Departmental expenditure under such circumstances is a contentious matter in audit.

#### **4. Accountability and Good Governance**

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##### **4.1 Budgetary Control**

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Significant variances were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of control.

#### **5. Systems and Controls**

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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) Accounting
- (b) Distribution of Rewards and Expenditure Control