

Customs Overtime and Cargo Examination Fees 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 Overtime and Cargo Examination Fees 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 Presentation of Financial Statements

Four Creditors balance totalling Rs.59,751,687 and Rs.208,706 being value of investment in a savings deposit included in the balance sheet of the Overtime Fund had not been shown in the relevant column of the consolidated balance sheet of the Fund.

1.2.2 Unidentified Transactions

Action had not been taken to identify and settle 08 balances of current assets and current liabilities amounting to Rs.7,017,198 and Rs.1,730,375 respectively brought forward over a number of years. This had been continuously pointed out in the audit reports for the years 2008 to 2011. Though the Director General of Customs stated that action will be taken to rectify that in the subsequent year, no action had been taken even during the year 2012 to settle the matter.

1.2.3 Accounts Receivable

The following observations are made.

- (a) Out of the total debtors balance as at 31 December 2012 amounting to Rs.34,184,264 a sum of Rs.9,639,109 or 28.2 per cent had been balance solder than 05 years. Out of that, a sum of Rs.24,545,155 or 71.8 per cent remained outstanding for more than 10 years. Adequate provisions for bad debts had not been made for those balances uncertain of recovery. A formal course of action had not been taken even during the year under review for the recovery of the money from the debtors existing for more than 07 years. Similarly, action had not been taken to ascertain the existence of certain institution shown as debtors.
- (b) The debtors balances totalling Rs.1,816,630 recoverable from 13 institutions included in the sundry debtors balance had been existing over a number of years. A liability amounting to Rs.2,946,461 representing special deposits relating to those 13 institutions appeared in the balance sheet. Attention had not been paid to the possibility of identifying and settling those balances.
- (c) Security deposits had not been obtained in connection with certain debtors balances.

1.2.4 Special Deposits and Investments

Initial deposits amounting to Rs.263,500 obtained from 75 institution since the year 1967 had been invested in the savings accounts and interest amounting to Rs.10,316,337 had been obtained up to the end of the year under review. That interest and the initial deposits amounting to Rs.10,579,837 had been shown as special deposits in the balance sheet of the year under review. The following observations are made in this connection.

- (a) The documentary information in support of the purpose of obtaining the deposits had not been furnished to audit.

- (b) Action had not been taken to find out whether the depositor institutions are in existence and those deposits had not been confirmed as refundable deposits.
- (c) As this money had been invested in saving accounts over a long period a very low interest had been earned and attention had not been paid to deploy the money in other suitable investments.

1.2.5 Lack of Evidence for Audit

Evidence indicated against the following items had not been furnished to audit.

Item	Amount	Evidence not made available
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	Rs.	
(a) Sundry Debtors	34,184,264	Confirmation of Balances outstanding from 158 institutions.
(b) Eight Items of Accounts	8,747,573	Confirmation of Balances

1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decision	Non- compliance
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(a) Financial Regulations Financial Regulation 175(2)	Action for recovery of arrears amounting to Rs.34,184,264 as at 31 December 2012 had not been taken.
(b) Public Administration Circular No.9/2009 of 16 April 2009 and the Sri Lanka Customs Circular No.01/2010 of 19 February 2010.	Even though the punch card machines had been introduced by Sri Lanka Customs, none of the officers of Sri Lanka Customs had used the punch card machine during the year under review and no

action whatsoever had been taken in that connection.

1.2.7 Transactions not Supported by Authority

Internal regulations had been made for enabling the Customs Officers to claim overtime exceeding 600 hours per month at 12 to 27 hours per day and the formal approval obtained for that had not been furnished to audit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating surplus of the Fund for the year ended 31 December 2012 amounted to Rs.145,587,707 as compared with the corresponding surplus of Rs.171,182,085 for the preceding year, thus indicating a deterioration of Rs.25,594,378 in the financial results. This deterioration had been mainly due to the decrease of the income of the Fund by 2.7 per cent and the increase of the expenditure by 2.4 per cent as compared with the preceding year.

3. Operating Review

3.1 Performance

(a) Overtime Fund

The money collected as overtime from the external clearance centres and the other institutions to defray the expenditure incurred in the performance of duties during the time in addition to the normal duty times of the Customs Officers and for the performance of duties, on the dates in which the Customs is closed for duties is credited to this Fund and the payments made to the customs staff for such overtime service performed are considered as the expenditure of the Fund.

An analysis of the financial results of the Overtime Fund for the year ended 31 December 2012 and the 09 preceding years is given below.

Year	Income	Expenditure	Surplus	Improvement / (Deterioration) in the Financial Results as Compared with Preceding year as a Percentage	Surplus as a Percentage of the Income
	Rs. Millions	Rs. Millions	Rs. Millions	%	%
2003	314.442	257.511	56.931	-	18.11
2004	336.786	302.717	34.069	(40.15)	10.12
2005	381.696	367.750	13.946	(59.06)	3.65
2006	490.012	384.789	105.223	654.52	21.47
2007	576.415	425.920	150.495	43.02	26.11
2008	576.671	424.275	152.396	1.26	26.43
2009	465.837	410.236	55.602	(64.00)	12.00
2010	583.491	416.289	167.202	200.00	28.64
2011	593.065	421.883	171.182	2.38	28.86
2012	577.392	431.805	145.587	(14.95)	25.21

The following observation is made in this connection.

Even though overtime payable during the year under review to the staff of Sri Lanka Customs from the Overtime Fund and a sum of Rs.2,597,260 as overtime under the Departmental Expenditure Head had been paid, action had not been taken to credit the surplus of the Overtime Fund to the Consolidated Fund.

(b) Customs Cargo Examination Fees Fund

Out of the examination fees recovered from the parties who clear the goods for the deployment of Customs Officers outside the normal places of work on examination duty, 50 per cent is credited to the Customs Cargo Examination Fees Fund and that money is utilized for the payment of allowances. Accordingly, a sum of Rs.200,913,004 had been received into the Fund during the year under review and together with the balance brought forward, the total amount was Rs.452,982,826. The expenditure incurred in the year under review amounted to Rs.161,995,774. The deposits of the Fund as at end of the preceding year amounted to Rs.252,069,822 and that had improved up to Rs.290,987,052 as at end of the year under review.

3.2 Transactions of Contentious Nature

The following observations are made.

- (a) The contentious nature of the overtime payment process of Sri Lanka Customs was continuously pointed out in the previous years audit reports and overtime had been paid in an unrealistic manner even during the year under review. An audit test check relating to 06 officers of the Export Division for the three months from January to March 2012 revealed that each officer had been on overtime duty in the ranges of 600 hours to 663 hours in each of the three months. The overtime paid to each officer per month in each of the 03 months ranged from Rs.27,499 to Rs.33,393. Further, the average overtime duty of these officers per day per officer had exceeded 20 hours.

- (b) Those officers had been paid cargo examination fees in an unusual manner in respect of the period for which the above overtime had been paid. An audit check of 8 officers carried out in this connection revealed that each officer who had been paid overtime in the ranges of Rs.21,678 to Rs.29,421 and the cargo examination fees in the ranges of Rs.44,680 to Rs.89,246 in respect of the same month had been paid. In certain instances, officers had been paid cargo examination fees exceeding Rs.128,000 per month per officer.
- (c) Even though requests were made to produce the documents to audit in support of the payment of cargo examination fees relating to the Bonds and Baggage Division during February to April 2012, such information was not produced even up to October 2013. It was reported that the information relating to the Exports Division for the years 2008 and 2009 had been deleted while such information for the year 2010 and 2011 had not been produced to audit. As such the accuracy of the payment of cargo examination fees amounting to Rs.762,969,822 from the year 2008 to 2011 and the payments amounting to Rs.161,995,774 made in the year 2012 could not be examined.
- (d) The above overtime and cargo examination fees had been paid in addition to the monthly salaries, incentives and rewards paid to the officers. The overtime earnings of most officers had exceeded their consolidated salaries. These payments made to the officers on the basis on being on duty throughout the year without obtaining leave is an unrealistic situation.
- (e) Even though the outdated regulations on overtime and external examination fees should be amended to rectify the above situation no action whatsoever had been taken in that connection.

3.3 Management Inefficiencies

The following observation is made.

The unutilized money of the Fund had been brought forward from year to year as Treasury deposits. The balances of the Deposit Account and the balance of the Fund indicated improvement as shown below. It was observed that necessary steps had not been taken by discussing the matter with the Treasury.

Year	Overtime Fund	Cargo Examination Fees Fund	Balance of the Treasury Deposit Account
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	Rs.	Rs.	Rs.
2005	28,007,949	-	28,007,949
2006	254,940,825	93,672,857	348,613,682
2007	451,423,786	157,259,952	608,683,738
2008	616,810,938	246,576,326	863,387,264
2009	669,350,013	322,004,787	991,354,800
2010	849,082,264	369,645,856	1,218,728,120
2011	1,022,822,795	252,069,822	1,274,892,617
2012	1,176,009,046	290,987,052	1,466,996,098

4. Accountability and Good Governance

Budgetary Control

Material variances were observed between the income and expenditure according to the budget and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies in systems and controls 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) Arrears of Income
- (b) Overtime Payments
- (c) Accounting
- (d) Container Examinations
- (e) Staff Administration