

## **Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2013**

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The audit of financial statements of the Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the statements of comprehensive income, the statement of changes in equity and cash flow statement and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations in respect of the aforesaid financial statements appear in this report.

### 1:2 Management's Responsibility for the Financial Statements

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### 1:3 Auditor's Responsibility

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My responsibility is to express an opinion on these financial statements based on my audit conducted in accordance with Sri Lanka Auditing standards consistent with international Standards of Supreme Audit Institutions (ISSAI-1000-1810)

### 1:4 Basis for Disclaimer of Opinion

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As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the balance sheet, income and expenditure statement and cash flow statements.

## 2. Financial statements

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### 2.1 Disclaimer of Opinion

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Because of the significant of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### 2.2 Comments on Financial Statements

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#### 2:2:1 Presentation of Financial Statements

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The following observations are made.

- (a) Accounting policies for preparing and presenting financial statements of the Fund had not been disclosed. Income statement for the Customs Overtime had been prepared

on accrual basis whereas, that for the Cargo Examination Fees and Customs Information Fees and Customs Information and Communication Technology had been prepared on cash basis.

- (b) The consolidated income and expenditure statements and cash flow statement for the customs Overtime, Cargo Examination Fees and Customs information and Communication Technology Fund had not been prepared and presented.

#### 2.2.2 Accounting Deficiencies

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Deposits amounting to Rs.8,485,000 obtained by the Sri Lanka Customs in connection with bond agreements entered into with 91 Shipping Agencies, had been deposited in the Special Deposit Account of Sri Lanka Customs instead of being included in the financial statements of the Fund.

#### 2.2.3 Accounts Receivable

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The following observations are made.

- (a) Even though provision for bad debts amounting to 5 per cent of debtor balance amounting to Rs.20,877,676 that represented 60 per cent of the total debtors, had been made adequate provisions for bad debts had not been made in consideration of the uncertainty training as those debtors balances remained without being recovered for over 10 years.
- (b) Even though the balance of Rs.534,773 included in the debtors for the year 2004 under the name the Board of Investment –Container Verification Terminals, Orugodawatta had been set off against the water bills of that institution in the year 2008, that had been shown as an amount receivable by the Fund even in the year under review.
- (c) Action had not been taken even in the year under review to rectify a receivable sum of Rs.708,656 for 2005 set off in the year 2008 against the water and electricity expenses that should have been borne from the Consolidated Fund.

#### 2.2.4 Lack of Evidence for Audit

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Documents in support of the current assets totaling Rs.7,017,298 and current liabilities totaling Rs.1,730,375 brought forward over a number of years, had not been presented to audit.

2:3 Non-compliance with Laws, Rules and Regulations  
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The following non-compliances were observed.

Reference to Laws, Rules and Regulations -----	Non-compliance -----
(a) Gazette Extraordinary No.1520/17 dated 26 October 2007	Deposits obtained in connection with the bound agreements entered into with 91 Shipping Agencies had not been invested suitably and action had not been taken to identify and account for the income payable to the Government and the depositors.
(b) Gazette Extraordinary No.1829/39 of Minister of Finance dated 27 September 2013	Even though the name of the Fund had been amended as Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund, the name had been indicated as the Customs Overtime and Cargo Examination Fees Fund, in the financial statements presented to audit.

3. Financial Review  
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3:1 Financial Results  
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The financial result only of the Overtime Fund had been shown in the income and expenditure account of the financial statements presented for the year under review. The operations for the year under review had resulted in the deficit of Rs.20,318,093 as against the surplus of Rs.145,587,707 for the preceding year, thus indicating a deterioration of Rs.165,905,800 in the financial results. The increase of overtime expenditure by 47 per cent as compared with the preceding year had been the main reasons for the deterioration.

4. Operating Review  
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4.1 Performance  
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An analysis of the financial results of the Overtime Fund for the year under review and the 09 preceding year is given below.

Year	Income	Expenditure	Surplus (Deficit)	Improvement /(deterioration of the financial result as a percentage as compared with the preceding year	Surplus / (Deficit) as a percentage of the income
	Rs. Million	Rs. Million	Rs. Million		
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)	12.00
2010	583.491	416.289	167.202	200	28.64
2011	593.065	421.883	171.182	2.38	28.86
2012	577.392	431.805	145.587	(14.95)	25.21
2013	588.163	608.481	(20.318)	(113.95)	(3.46)

The following observations are made in this connection.

- (a) The expenditure incurred on the staff from the Fund in the year under review amounted to Rs.549,708,309 and that amounted to Rs.373,430,297 in the preceding year. The payment of overtime by increasing overtime paid to all employees by 45 per cent in the year under review in accordance with the internal circular No.855 of 01March 2013 of the Sri Lanka Customs had been the main reasons for the expenditure on overtime over that of the preceding year.
- (b) The total staff of the Sri Lanka Customs as at the end of the year under review had been 2,078 and the average overtime cost per employee amounted to Rs.264,537. The average overtime cost per employee in the preceding year amounted to Rs.174,093. The expenditure on overtime met from the Consolidated Fund under the under the Head of the Sri Lanka Customs was not included in the computation of the average overtime cost per employee. The cost incurred in the year 2013 under the Departmental Head amounted to Rs.3,482,065.

#### 4.2 Management Inefficiencies

The following observations are made.

- (a) The unutilized money of the Fund had been brought forward year after year as Treasury Deposits and the balances of that Deposits Account and the balance of the Fund had indicated an increase as shown below. Action had not been taken to utilise that money in a suitable investment in consultation with the Treasury.

Year	Balance of Overtime Fund	Balance of the Cargo Examination Fees Fund	Balance of the Treasury Deposit Account
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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	332,004,787	991,354,800
2010	849,082,264	369,645,856	1,218,728,121
2011	1,022,822,795	252,069,822	1,274,892,617
2012	1,176,009,046	290,987,052	1,466,999,098
2013	1,172,194,952	326,530,883	1,498,725,835

- (b) The sundry debtors balance as at 31 December 2013 amounting to Rs.34,670,140 included debtors balances relating to 13 institutions totaling Rs.2,350,079 existing over number of years. A liability amounting to Rs.3,100,273 relating to those institutions as well appeared in the balance sheet in the form of special deposits. Attention had not been paid for the identification of those balances and explore the possibility of settlement.
- (c) A test check of the examination of containers by Export Division revealed practically unacceptable situations such as three officer carrying out between 35 to 45 examinations per day after office hours, carrying out those examination at the same time in two or more different places, examinations carried out by visiting different institutions in different areas in very short periods of time. As such it was not possible to be satisfied in audit with regard to the sum of Rs.129,200 paid to them as cargo examination fees.

#### 4.3 Operating Inefficiencies

The following observations are made.

- (a) A test check of the operations of a Container Terminal during 01 September to 10 September 2013 revealed that over 50 per cent of the officers assigned had not reported for duty and that certain officers who had marked the attendance had actually participated in the examinations had not been supported, by documentary evidence.
- (b) The interest earned up to the end the year under review from investing in savings accounts the initial deposit amounting to Rs.263,500 obtained from 75 institutions

from the year 1967 to the year 1973 amounted to Rs.10,866,028. A very low interest had been earned due to investment of the money in Savings Accounts and action had not been taken to invest the money in another suitable investment. This matter was continuously reported in the audit reports over a number of years.

#### 4.4 Transactions of Contentious Nature

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The following observations are made.

- (a) Overtime allowance of the officers had been increased by 45 per cent during the year under review on the recommendation of the Overtime Review Committee of the Department. The formal approval obtained in that connection had not been presented to audit.
- (b) An audit test check carried out in relation to 06 officers in the Export Division in 2 months during January and February during the year under review revealed that all officers had worked overtime from 395 to 663 hours per month. Overtime payments ranging from Rs.25,841 to Rs.44,311 had been made to officers in February alone. Five officers out of them had worked overtime for more than 20 hours on every day of the month.
- (c) During the period in which, the audit test check was conducted, cargo examination fees ranging from Rs.129,860 to Rs. 165,100 had been paid for the same month in addition to the monthly overtime made ranging from Rs.26,574 to Rs.36,292 per officer.

#### 5. Accountability and Good Governance

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##### Budgetary Control

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As a material increase of 53 per cent between the estimated expenditure and the actual expenditure was revealed, it was observed that the budget had not been made use of as an effective instrument of management control.

#### 6. Systems and Control

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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 Service
- (c) Accounting
- (d) Container Examinations