

Customs Officers Reward Fund - 2013

The audit of financial statements of the Customs Officers Reward Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the statement 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 on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.27.75 million out of the Reward Advance amounting to Rs.30 Million paid to an officer should be debited to the Rewards Paid to Officers Account and a sum of Rs.2.25 million to the Pay As You Earn Tax Account, the entire Rs.30 million had been debited to the Reward Paid to Informers Account.
- (b) Withholding Tax and the Pay As You Earn Tax totaling Rs.64,157,056 had not been separately identified and brought to account.

2.2.2 Accounts Payable

The following observations are made.

- (a) It was observed that the balance of Reward Refund Account amounting to Rs.30,154,929 as at 31 December 2013, as a balance accumulated and brought forward over a number of years and no proper action had been taken on long term unsettled amounts. Similarly, an age analysis had also not been presented to audit.
- (b) A balance of Rs.313,450 existed as at 31 December 2013 in the Reward Fund due to the non-payment of rewards of small values from Rs.1,250 to Rs.12,500.

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

The following observations are made.

Reference to Laws, Rules and Regulations

Sections 116 and 114 of Inland Revenue Act No. 10 of 2006

Non-compliance

- (i) Pay As You Earn Tax totaling Rs.25,691,862 and Rs.4,823,846 had been under recovered from 109 officers who were paid rewards in the year

under review and 234 officers who were paid rewards in the preceding year respectively.

- (ii) In deducting the Pay As You Earn Tax for rewards paid to officers, a large amount of tax revenue had been lost to the Government due to the failure to compute the tax by accumulating the allowances in accordance with the instructions of the Commissioner General of Inland Revenue.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2013 had resulted in a surplus of Rs.115,741,700 as compared with the corresponding surplus of Rs.47,599,048 in the preceding year. The operating result of the year under review had increased by Rs.68,142,652 or 143 per cent.

4. Operating Review

4.1 Performance

The particulars of income, expenditure and the net operating results of the Fund for the year ended 31 December 2013 and the 06 preceding years are given below.

Year	Income	Expenditure				Total Expenditure	Surplus / (Deficit)
		Payments to Officers	Payments to Informers	Tax, Department of Inland Revenue	Other expenditure		
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
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	65,727,779

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
2013	1,522,699,798	1,146,769,044	121,281,124	64,157,056	74,750,874	1,406,958,098	115,741,700

The following observations are made in this connection.

- (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.549,489,204 or 56 per cent.
- (b) According to the financial statements presented, the payments made to the officers as rewards in the year under review as compared with the preceding year indicated an increase of Rs.452,407,948 or 65 per cent.
- (c) The Scheme for Distribution of Rewards among the offices and informers had been introduced by the Departmental Order No.118 and amendments from (a) to (n) issued in terms of Section 153(2) (b) of the Customs Ordinance and sums totaling Rs.2,770 million comprising Rs.680 million Rs.822 million and Rs.1,268 million had been distributed among the officers and informants in the years 2011, 2012 and 2013 respectively. Out of this, a sum of Rs.2,415 million or 87 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.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) The fine of Rs.208,283,881 imposed on a Statutory Corporation, in connection with the erroneously stated Harmonized System Code Number in respect of 12 imports during the period from year 2000 to 2003 had been paid to Sri Lanka Customs in the year 2013. Out of the said fine, only 30 per cent or Rs.62,485,164 had been credited to the state revenue and the remaining 70 per cent or Rs.145,798,717 had been allocated to the Fund for Customs Officers and their welfare.

No action had been taken to wave or mitigate the said fine by appropriate action in respect of fines imposed in terms of Customs Ordinance No. 17 of 1869 dated 01 January 1870 and Sections 163 and 164 amended Customs Ordinance (Chapter 235).

- (b) Even two instances of applications made by the owners of motor vehicles imported under the Carnet project without the payment of duty under the temporary export basis, for registration in Sri Lanka had been treated by the Customs officers as Customs

investigation and had transferred the ownership to the parties who imported the motor vehicles. Out of the fines recovered based on the duty applicable 70 per cent had been allocated for the payment of rewards to the officers and for their welfare funds.

- (c) Despite provisions of Rs.26,954,018 made for fuel expenses under the Head of Expenditure of Sri Lanka Customs during the year under review, a sum of Rs.41,455,915 out of the Reward Fund had been allocated for the Fuel Fund in the year under review without identifying specific criteria. A sum Rs.3,848,787 out of that had been spent on fuel without proper approval.
- (d) A sum of Rs.14,802,153 from the reward Fund had been allocated for the Narcotics Fund in the year under review without identifying specific criteria and out of that, a sum of Rs.3,200,000 had been spent in the year under review. Information on the nature of expenditure for which the money was utilized had not been presented to audit and that as compared with the preceding year, had increased by Rs.1,405,000 or 78 per cent.

5. Accountability and Good Governance

5.1 Budgetary Control

The following observations are made.

- (a) Even though in terms of Public Finance Circular No. PF/423 of 22 December 2006, the annual budget should be approved before fifteenth day of September of the preceding year, approval for the budget of the year under review had been only on 21 June 2013, after a delay of 09 months.
- (b) Variances in 07 items of expenditure ranging from 32 per cent to 1,222 per cent were observed between the budgeted and the actual expenditure and variances in 03 items of income ranging from 64 per cent to 178 per cent were observed between the budgeted and the actual income, thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. 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) Ledger Accounts
- (b) Sub-Funds relating to the Reward Fund
- (c) Distribution of Rewards
- (d) Expenses of the Reward Fund