

Customs Officers' Management and Compensation Fund – 2014

The audit of financial statements of the Customs Officers' Management and Compensation Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, cash flow statement and a summary of other explanatory information 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 aforesaid 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 Sri Lanka Public Sector Accounting Standards 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 Auditing 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 judgement, 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 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 Customs Officers' Management and Compensation Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Accounting Deficiencies

The following observations are made.

- (a.) A sum of Rs. 2,526,551 had been spent in the year 2012 for constructing a canopy in order to protect an inscription in a place that did not belong to Sri Lanka Customs. The said amount had been capitalized contrary to Sri Lanka Accounting Standard 07, and action had not been taken even up to the end of the year under review to rectify that. Furthermore, the accumulated value of depreciation relating to the relevant asset amounted to Rs. 505,310 as at 31 December 2014.
- (b.) An income totalling Rs. 54,500 had been overstated in connection with 3 reward files.

2.2.2 Unreconciled Control Accounts

According to the financial statements, the balance relating to 03 items of fixed assets amounted to Rs. 9,859,948. However, it was Rs. 11,234,859 according to the Register of Fixed Assets. As such, a difference of Rs. 1,374,911 was observed.

2.2.3 Unexplained Differences

Differences in connection with receipts and payments of the Fund, amounting to Rs. 399,717 and Rs. 1,142,665 were observed between Treasury print outs and Department books respectively.

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

The following observations were observed.

Reference to Laws, Rules and Regulations

- (a.) Section (a) (I) of Customs Ordinance Act 153

Non-compliance

Payments totalling Rs. 10,451,641 had been made in 5 instances contrary to objectives of the Fund which permit payments.

- (b.) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka Annual Boards of Survey had not been conducted.
- (c.) Management Audit Circulars, No. DMA/07 and DMA/2009(2) dated 13 January 2002, and Treasury Circular, No. IAI/2002/02 dated 28 November 2002 A detailed register on computers and software had not been maintained properly.
- (d.) Section 05 of Public Finance Circular, No. 02/2014 dated 17 October 2014, and Public Finance Circular, No. 422 dated 30 July 2006 Information relating to purchases of goods and assets disposed of in the financial year should be recorded, and the report should be presented to the Director General of Public Finance prior to 31 March of the financial year. However, it had not been so done.

2.4 Transactions not Supported by Adequate Authority

As the provisions from the Treasury had not been sufficient for the capital and recurrent expenses of the Sri Lanka Customs, a sum totalling Rs. 24,071,854 had been spent by the Customs Officers' Management and Compensation Fund. Furthermore, approval of the Director General of Customs had not been obtained to spend a sum of Rs. 10,775,608 from the said sum.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating surplus of the Fund for the year under review amounted to Rs. 393, 796,271 as compared with the corresponding surplus of Rs. 478, 770,293 for the preceding year, thus indicating a deterioration of Rs. 84, 974,022 in the financial result. The decrease of the income of the Fund by 12 per cent or Rs. 76,663,765 as compared with the preceding year had mainly affected the deterioration of the financial result.

3.2 The Unusual Increase/Decrease in the Expenditure

The other expenditure excluding training incurred in the preceding year amounting to Rs. 24,633,534 had increased by a sum of Rs. 49,646,587 representing 102 per cent, whereas expenditure on the postgraduate courses amounting to Rs. 26,106,538 had decreased by a sum of Rs. 2,783,800 or 89 per cent in the year under review.

4. Operating Review

4.1 Performance

According to the information made available, an analysis of the financial results of the Fund for the year under review and the preceding year is given below.

Type of income/Expenditure	Income / expenditure in the year 2014	As a percentage of total income/ total expenditure of 2014	Income / Expenditure in the year 2013	Increase/Decrease in the year 2014 as compared with the year 2013	
				Value	As a percentage
	Rs.000		Rs.000	Rs.000.	
<u>Income</u>					
Sale of Seized Goods	89,824	17.40	109,869	(20,045)	(18.24)
Fines	426,399	82.60	479,999	(53,600)	(11.17)
Other Receipts	<u>0</u>	<u>0</u>	<u>3,019</u>	<u>(3,019)</u>	<u>(100)</u>
Total Income	<u>516,223</u>	<u>100</u>	<u>592,887</u>	<u>(76,664)</u>	<u>(12.93)</u>
<u>Expenditure</u>					
Local Training	15,911	12.99	12,063	3,848	31.89
Foreign Training	54,086	44.19	51,314	2,772	5.40
Postgraduate Courses	2,784	2.27	26,107	(23,323)	(89.34)
Other Expenditure	<u>49,646</u>	<u>40.55</u>	<u>24,633</u>	<u>25,013</u>	<u>101.54</u>
Total Expenditure	<u>122,427</u>	<u>100</u>	<u>114,117</u>	<u>8,310</u>	<u>7.28</u>
Surplus	<u>393,796</u>		<u>478,770</u>	<u>(84,974)</u>	<u>(17.75)</u>

The following observations are made.

- (a.) Fifty percent of the income from the fines recovered on goods seized during customs examinations and the sale of goods seized is allocated for the payment of rewards and 40 per cent of the balance 50 per cent is credited to the Customs Officers' Management and Compensation Fund. Contributions of 82.6 per cent and 17.4 per cent had been received by the Fund as income in the year under review from the fines and sale of seized goods respectively.
- (b.) The main objectives of this Fund included meeting the expenditure on local and foreign training for the improvement of the management effectiveness of the Customs Officers and payment of compensation for accidents caused to officers. An annual increasing trend in the accumulated balance of the Fund was observed due to the allocation of money to the Fund without identifying the specific criteria for the achievement of aforesaid objectives. As such, the balance of the Accumulated Fund

of the Fund as at 31 December 2013 amounting to Rs.3, 889 million had increased to Rs. 4,283 million by a sum of Rs. 394 million as at 31 December 2014 representing 10.13 per cent.

4.2 Management Inefficiencies

Two officers of the Sri Lanka Customs who had been on probation were directed for foreign training without properly adhering to a procedure for selecting officers for foreign training. A particular officer had been directed for foreign training programs in 08 instances.

4.3 Transactions of Contentious Nature

A sum of Rs. 1,272,300 spent on 2 legal cases relating to goods seized or confiscated had been spent on Customs Officers' Management and Compensation Fund, instead of being incurred from the relevant Advance Account.

5. Accountability and Good Governance

5.1 Budgetary Control

The following observations are made.

- (a.) Variances ranging from 28 per cent to 100 per cent were observed between the actual and the budgeted income and expenditure of the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.
- (b.) In accordance with Public Finance Circular, No. PF/423 dated 22 December 2006, a budget should be prepared and obtain approval of the relevant Minister 3 1/2 months prior to the commencement of the accounting year. Nevertheless, the budget of the Fund had been presented after a period of 6 months after the commencement of the accounting year for the year under review.

6. Systems and Controls

Deficiencies observed during the course of audit were reported to the Director General of Customs from time to time. Special attention is needed in respect of the following areas of control.

- (a.) Fixed Assets
- (b.) Utilization of Funds
- (c.) Budgetary Control
- (d.) Accounting
- (e.) Financial Control