

Customs Officers Reward Fund - 2014

The audit of financial statements of the Customs Officers Reward Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 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 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.

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 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 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 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 Policies

Although a sum of Rs.28,656,305 out of a Sub-Fund of the Customs Officers Rewards Fund titled "2.5 per cent Reward Fund" had been spent during the year under review, the specific criteria on the expenditure that is possible to be incurred from that Fund had not been disclosed in the accounting policies.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Despite being accounted the unpaid cash price totalling Rs. 569,279,165 as the expenditure of the Reward Fund as at 31 December 2014, it had been adjusted to the Treasury Deposit Account and shown in the balance sheet, without being disclosed as a liability.
- (b) As the value of the unpaid 03 price lists totalling Rs.5,282,713 had been brought to account twice, expenditure and liabilities had been overstated by that amount in the financial statements..

2.2.3 Accounts Payable

The following observations are made.

Instead of being adopted a proper methodology for the repayment of unclaimed cash price totalling Rs.26,429,947 of the officers, it had been deposited to an account called "Reward Returned Deposit Account" and the balance had been brought forward .

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2014 had resulted in a surplus of Rs.36,526,769 as compared with the corresponding surplus of Rs.115,741,700 in the preceding year. Accordingly, the operating result of the year under review had decreased by Rs.79,214,931 or 68.44 per cent as compared with the preceding year. Although total expenditure of the year under review had decreased

by Rs.72,682,856 or 5.17 per cent as compared with the preceding year, the decrease of the total income by Rs.151,897,787 or 9.98 per cent had mainly attributed to the decrease of this surplus.

4. Operating Review

4.1 Performance

The particulars of income, expenditure and the net operating results of the Fund for the year under review and the 03 preceding years are given below.

| Year | Income | Expenditure | | | | Total Expenditure | Surplus |
|-------|---------------|----------------------|------------------------|-----------------------------------|-------------------|-------------------|-------------|
| | | Payments to Officers | Payments to Informants | Tax, Department of Inland Revenue | Other expenditure | | |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| 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 |
| 2014 | 1,370,802,011 | 1,025,591,909 | 117,310,035 | 126,095,842 | 65,277,456 | 1,334,275,242 | 36,526,769 |

The following observations are made in this connection.

- As compared with the preceding year, the payments of rewards made to the officers in the year under review had decreased by Rs.121,177,135 or 10.57 per cent.
- A sum totalling Rs.3,913 million comprising Rs.680 million, Rs.822 million, Rs.1,268 million and Rs.1,143 million had been distributed among the officers and informants in the years 2011, 2012, 2013 and 2014 respectively, out of which, a sum of Rs.3,441 million or 87.94 per cent had been paid to the officers as the rewards. The income of the Reward Fund had increased by 56 per cent and 41 per cent in the years 2013 and 2014 respectively as compared with the year 2012 and the payments made to the officers as well had increased by 65 per cent and 48 per cent respectively.
- It was observed that, although a colossal amount of money out of the income received by the sale of goods confiscated by the Sri Lanka Customs and the fines imposed for various Customs faults had been paid as the rewards in this manner, only 30 per cent out of that income was credited to the Government revenue.

4.2 Transactions of Contentious Nature

Despite provisions of Rs.40,000,000 made for fuel expenses under the Head of Expenditure of Sri Lanka Customs during the year under review, in addition a sum of Rs.36,845,912 out of the Reward Fund had been spent for the Fuel.

4.3 Management Inefficiencies

The following observations are made

- (a) In entering particulars relating to the unclaimed rewards in the Returned Deposit Ledger, the weaknesses such as entering particulars under different numbers, failure to indicate the payment date, prevalence of instances not signed by a Staff Officer, failure to indicate page numbers and detaching of pages of the document were observed.
- (b) As the payments in respect of the price lists relating to the year 2014 had been made before the completion of the payments for the unpaid price lists existed as at 01 January 2014, payments for 15 price lists totalling Rs.34,690,513 produced in the preceding year had not been made even by the end of the year under review. Accordingly, it was observed in audit that a specific method had not been adopted in respect of the payments of the Fund.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 4.3 of the Public Finance Circular No.PF/423 dated 22 December 2006, the annual performance reports and the financial statements of the Funds should be furnished to audit within 02 months from the close of the year of accounts. Nevertheless, the financial statements of the year under review had been furnished on 07 July 2015 , after a delay of approximately a period of 03 months.

5.2 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, it had not been so done.
- (b) Variances in 07 items of expenditure ranging from 36 per cent to 100 per cent were observed between the budgeted and the actual expenditure and variances in 02 items of income ranging from 29 per cent to 70 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 management 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) Accounting
- (b) Control of Funds