

## **Customs Officers' Management and Compensation Fund - 2015**

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The audit of financial statements of the Customs Officers' Management and Compensation Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 which I consider should be published with the Annual Report of the Department 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 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**

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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**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for 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 2015 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.**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) A net income amounting to Rs.4,875,474 pertaining to 19 case files completed during the year under review had been understated in the financial statements.
- (b) Depreciation on non-current assets had been under-provisioned by Rs.416,520 during the year under review.

#### **2.2.2 Unexplained Differences**

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The following observations are made.

- (a) Even though a sum of Rs.612,230,436 approximately should have been credited to the Fund during the year under review in terms of the provisions in the Customs Ordinance, the actual amount credited had been only Rs.588,065,426. As such, a decrease of Rs.24,165,010 in the income was observed while the reasons therefore had not been explained.
- (b) Differences amounting to Rs.3,635,649 and Rs.5,709,657 in the receipts and payments of the Fund respectively were observed between the Treasury Printouts and Departmental Books.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operating surplus of the Fund for the year under review amounted to Rs. 450,789,616 as compared with the corresponding surplus of Rs. 394,048,926 for the preceding year, thus indicating an improvement of Rs. 56,740,690 in the financial result of the year under review as compared with the preceding year. The increase in the income from fines and the sales income from seized goods of the Fund by Rs.56,787,933 and Rs.15,053,753 respectively had been the main reason therefore.

An analysis of the financial results of the year under review and the four preceding years revealed that even though the surplus of the Fund amounting to Rs.232,622,256 for the year

2011 had improved to Rs.478,770,293 by the year 2013, it had deteriorated to Rs.394,048,926 by the year 2014. It had improved again to Rs.450,789,616 in the year 2015. In considering the depreciation on non-current assets, the contribution of the Fund amounting to Rs.232,938,001 for the year 2011 had increased up to Rs.484,905,593 by the year 2013 but it had decreased to Rs.426,861,292 by the year 2014. Further, it had increased again to Rs.483,597,854 in the year under review.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following observations are made.

The objectives of the Fund in terms of Section 153(b) of the Customs Ordinance No.17 of 1869 are as follows.

Penalty imposed on various Customs offences and sales proceeds from the forfeiture goods an amount equal to 20 per cent are credited to the Customs Officers' Management and Compensation Fund and incurring 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.

- (a) Money had been allocated to this Fund for the achievement of aforesaid objectives in terms of the Customs Ordinance without a proper forecast and plan for several years, thus the accumulated balance of the Fund as at the end of the year under review had been Rs.4,731 million. As such, it represented an increase of Rs.448 million or 10.45 per cent as compared with the balance of the preceding year.

The following reasons had mainly impacted on the continuous improvement of the accumulated balance of the Fund.

- (i) Non-existence of a control over Customs duty frauds and prevalence of continuous increase in Customs duty frauds.

Certain data on the increase in the number of investigations from which the money was received to the Fund during 5 preceding years and the increase in financial value of Customs offences are given below.

<b>Year</b>	<b>Number of Investigations</b>	<b>Amount allocated to the Fund out of the financial value of Customs offences</b>
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		<b>Rs.</b>
2011	128	282,001,680
2012	183	362,419,680
2013	200	592,887,505
2014	258	516,223,741
2015	296	588,065,427

- (ii) In the imposition of penalties on Customs offences , Government tax income deprived of has also been considered as a part of the penalty, thus an increase in the cash rewards paid to the officers and also an increase in the amount allocated for this Fund were observed.
  - (iii) Lack of proper and timely amendments to the Custom Ordinance and legal provisions of relevant Funds appropriate to the complexity of importation and exportation arisen due to the free economic policies prevailing at present.
- (b) Even though the income of the Fund during the year under review amounted to Rs.588 million , the amount spent on the main objectives of the Fund had been Rs.73 million approximately. As such, it was observed that provisions were being made continuously without a proper plan for the achievement of the objectives of the Fund.
- (c) Even though the payment of compensation for accidents caused to the Custom officers on duty had been identified as one of the two main objectives of the Fund, no such payment of compensation was observed during the period of 5 preceding years subject to the examination. As such, the continuous collection of money in respect of this Fund in an unusual manner for the achievement of said objectives was a questionable issue in audit.
- (d) A sum of Rs.14 million had been spent during the year under review for the Objects such as purchase of non-current assets, maintenance of motor vehicles and security services extraneous to the main objectives.

#### **4.2 Resources of the Fund given to other Government Institutions**

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A sum of Rs.653,682 had been spent during the year under review from the Management Compensation Fund as expenditure on maintenance of buildings for painting of a building belonging to the Sri Lanka Ports Authority.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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Even though the Annual Performance Reports and financial statements of the Funds should be presented within 02 months after the close of the year of accounts in terms of Public Finance Circular No.PF/423 of 22 December 2006, the financial statements of the year under review had been presented only on 27 April 2016.

#### **5.2 Budgetary Control**

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Variances ranging between 100 per cent and 34 per cent were observed between the budgeted income and the actual income in 02 Items of Income and variances ranging between 78 per cent and 127 per cent were observed between the budgeted expenditure and the actual expenditure in 02 Items of the expenditure of Fund. Thus, it was observed that the budget had not been made use of as an effective instrument of management control.

**6. Systems and Controls**  
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Weaknesses 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.

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Selection of Officers for Foreign Training	Selection of Officers for Foreign Training without following a proper methodology
(b) Collection of Income	Lack of a proper methodology for the comparison of income receivable and income received to the Fund