

## **Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2015**

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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 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income 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. 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 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 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 Overtime, Cargo Examination Fees and Customs Information and Communication Technology 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 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Public Sector Accounting Standard 01**

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The following observations are made.

- (a) Comparative information in the statement of financial position and the comprehensive income statement relating to the previous period had not been disclosed.
- (b) A statement of changes in equity had not been presented as a component of the financial statements.
- (c) Except when a Sri Lanka Public Sector Accounting Standard permits or requires otherwise, assets and liabilities should not be set off. Nevertheless, the net balance of Rs.307,566,745 had been shown in the balance sheet by deducting balances totalling Rs.240,232,487 overpaid out of the payable balances totalling Rs. 547,799,236 that existed as at 31 December 2015 in the Cargo Examination Fees Fund.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) A sum totalling Rs.2,245,500 received for settling 04 debtors' balances of the preceding year had been credited to the Overtime Income Account of the preceding year instead of crediting to the Debtors' Account. As such, the income and the debtors' balance of the preceding year had been overstated by that amount.

A sum of Rs.2,245,500 had been debited to the income of the year and credited to the Debtors' Account erroneously in the year under review for the rectification of the above error. The relevant amount had been debited to the income of the year and credited to the Adjustment Account of the preceding year again for the rectification of that error and as such, the income of the year under review had been understated by Rs.4,491,000.

- (b) Twenty per cent of the amount charged on the Board of Investment of Sri Lanka by the Information and Communication Technology Fund of the Sri Lanka Customs should be paid to the Government and the remaining 80 per cent should be paid to the officers. Out of Rs.2,496,000 which was a liability of the Fund as at the end of the year under review,

the sum payable to the Government and the sum payable to the officers had not been identified separately and brought to account and the full amount had been shown in the accounts as a liability of the Fund.

- (c) Out of the amounts charged from naval transport companies relevant to cargo examination activities, 50 per cent each should be paid to the Government of Sri Lanka and the officers, engaged in cargo examination activities. However, out of the total amount collected from the relevant companies, the full amount recovered had been shown as a value payable instead of separately identifying and accounting the parts of amounts payable to the Government and the officers and a sum of Rs.307,566,745 had been shown as an amount payable by the end of the year under review.

### **2.2.3 Unexplained Differences**

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Even though the expenditure on overtime in the year under review had been Rs.565,111,555 according to the income statement, that expenditure amounted to Rs.562,817,226 according to the schedule, thus observing a difference of Rs.2,294,329.

### **2.2.4 Lack of Evidence for Audit**

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Out of 148 debtors balances totalling Rs.186,037,730, letters of confirmation of balances in support of 30 debtors balances totalling Rs.170,870,160 selected on sample basis as at 31 December 2015 had not been presented.

### **2.3 Accounts Receivable and Payable**

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The balances recoverable from 148 institutions as at 31 December 2015 totalled Rs.186,037,730 and 89 per cent of those debtors or the total of Rs.166,201,633 was recoverable to the Fund from 13 main institutions. A proper action had not been taken to recover those debts.

### **2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions**

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Only the Customs staff can be paid out of the money collected to the Customs Overtime Fund in terms of Gazette Notification No. 1520/7 of 20 October 2007. However, overtime payments had been made for the other staff as well.

### **2.5 Transactions not Supported by Adequate Authority**

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Four balances of current assets totalling Rs.7,017,198 and one balance of current liabilities of Rs.125,087 unsettled for a long period, had been written off without a proper investigation and approval.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.181,150,976 as compared with the corresponding surplus of Rs.73,157,048 for the preceding year thus observing an improvement of Rs.107,993,928 in the financial result of the year under review as compared with the preceding year. The increase in overtime income by 20 per cent as compared with the preceding year had been the main reason for the above improvement.

### **4. Operating Review**

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#### **4.1 Performance**

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Fees and charges recoverable from different parties for duties performed outside normal duty hours and duties fulfilled outside station by officers and fees recoverable from the Board of Investment of Sri Lanka for the supply of technical services to that institution should be credited to the Fund in terms of specified provisions. Moreover, the payments made to officers for those additional duties, is considered as expenditure on this Fund. Sums of Rs.849,470,690, Rs.308,184,006 and Rs.14,976,000 had been collected for overtime, cargo examinations and information technology activities respectively during the year under review as mentioned above and sums of Rs.565,111,555, Rs.154,092,003 and Rs.11,980,800 had been paid respectively to officers for those activities.

The following observations are made.

- (a) Even though overtime payments should be made in accordance with the amounts of payments decided by the Secretary to the Ministry of Finance in consultation with the Secretary to the Ministry of Public Administration from time to time in terms of paragraph 04(a) of the Gazette Extraordinary No.1520/17 of 20 October 2007 issued relating to the role of the Fund, such approval had not been obtained. Moreover, opportunity had been provided by the Overtime Committee of the Department in the year 2013 to make payments, further increasing the overtime rates existed until then by 45 per cent. Nevertheless, approval had not been obtained for that as well in terms of the above Gazette.
- (b) In the present payment of overtime by the Sri Lanka Customs for achieving the expected functions from the Fund, an overtime payment is made for 27 hours for a holiday of 24 hours and an overtime payment up to 18  $\frac{3}{4}$  hours for a normal working day. However, approval had not been obtained therefor in terms of the Gazette.

#### **4.2 Operating Activities**

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The following observations are made.

- (a) The interest received by the end of the year under review from investment of initial deposits in savings accounts amounting to Rs.263,500 obtained from 75 institutions for

which services had been supplied by the Sri Lanka Customs during the period from the year 1967 up to the year 1973 amounted to Rs.12,023,151.

Even though this value had been reported as deposits payable, no investigations whatsoever had been carried out in respect of the going concern of the institutions relating to the deposits and no proper measures whatsoever had been taken to settle those balances.

- (b) A total airline fees of Rs.2,274,000 receivable due to non-issuance of bills for 755 flights by 4 air lines in the year under review, could not be recovered. Moreover, the bills valued at Rs.44,820,000 had been issued in March 2016 for the period from February to December of the year under review for the main airlines for which services are supplied by the Sri Lanka Customs. Even though the delay in issuing bills had been previously pointed out by audit queries, proper measures had not been taken therefor.

#### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) It was observed that engaging in overtime work exceeding the number of hours of overtime relevant to the month, engaging in duty continuously from January up to December in the year according to the Register of Overtime and engaging in overtime by certain officers was an unrealistic situation.
- (b) Even though the limit of monthly hours of overtime had been indicated as 300 and 400 hours in certain divisions in terms of provisions of Internal Circular Nos.478 and 478 A of 01 July 2014 of 20 August 2014 respectively, there were instances in which overtime had been paid exceeding those limits.
- (c) It was observed that certain officers had been on duty continuously throughout the year without taking any leave whatsoever and that there had been instances in which overtime had been obtained on every such day as mentioned above. As such, those officers had obtained overtime for a number of hours ranging from 650 to 680 hours per month and it was observed as an unusual situation in audit.

#### **4.4 Apparent Irregularities**

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The Internal Control Methodology implemented by the Sri Lanka Customs in respect of engaging in overtime and payments thereon had been at a very weak level and as such, it was observed that the officers had been provided with the opportunity of obtaining overtime entitlement, merely by signing the Register of Overtime. Even though those weaknesses in internal control had been pointed out by audit queries and audit reports since several years, no steps whatsoever had been taken to normalize the position.

It was observed during the course of audit that overtime amounting to Rs.13,807 had been paid to three officers for participation at foreign workshops of the Sri Lanka Customs during the period in which they had been abroad. It was further confirmed that activities such as the

approval of such payments and making payments that indicate financial frauds in this manner are carried out negligently without any examination whatsoever.

## **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 the financial statements of the Funds should be presented within 02 months after the closure 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 on 29 March 2016.

### **5.2 Budgetary Control**

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The following observations are made.

- (a) Even though the annual budget should be approved before 15 September of the preceding year in terms of the Public Finance Circular No.PF/423 of 22 December 2006, the approval for the budget of the year under review had been obtained on 10 July 2015, with a delay of a period of 09 months.
- (b) The estimated income and expenditure of the Customs Information and Communication Technology Fund had not been included in the annual budget.

## **6. Systems and Controls**

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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 the Fund 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>
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(a) Financial Control	Failure in following a proper methodology in charging airline fees from airlines
(b) Control of Overtime Payment	Unavailability of a proper methodology in obtaining specified approvals for overtime payments.