

Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2016

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 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, 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 Fund 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 conducted 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 misstatement 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 the 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 Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund as at 31 December 2016 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

- (i) Action had not been taken to furnish either a comparison between the budgeted amounts and the actual amounts as a Supplementary Financial Statement or the budgeted amounts as a separate column in the financial statements, in terms of Paragraph 21(e) of the Standards.
- (ii) The relevant period of the financial statements and the unit of the currency had not been mentioned in the statement of changes in equity prepared for the Overtime Fund and a statement of changes in equity had not been prepared for the set of Consolidated Financial Statements. As such, it was observed that the instructions of the above Standard had not been followed in preparing the financial statements of the Fund.
- (iii) Even though assets and liabilities, and revenue and expenses should not be set-off unless required or permitted by the Standards in terms of Paragraph 48 of the Standard, Debtor Debit Balance amounting to Rs.209,942,470 and Debtor Credit Balance amounting to Rs.101,090 had been set- off against each other and the net value amounting to Rs.209,841,380 had been stated in the financial statements as at 31 December 2016.
- (iv) Even though each material class of items should be presented separately in the financial statements in terms of Paragraph 45 of the Standard, sums of Rs.79,933,557 and Rs.998,400 which remained payable to officers relating to the year under review from the Cargo Examination Fund and the Information Technology Fund, the total value of Rs.80,931,956 had been stated in the Income Statement separately instead of bringing to account by separately identifying under the relevant Expenditure Objects.

(b) Sri Lanka Public Sector Accounting Standard 02

The under- provision of doubtful debts amounting to Rs.1,943,123 relating to the year under review in preparing the cash flow statement and the net value of the debtors had been adjusted under operating activities without taking action to adjust the gross value of the debtors under operating activities.

2.2.2 Accounting Policies

Provisions had been made available on a common rate of 15 per cent for all debtors in providing for doubtful debts without considering the existence and the lifetime of the debtors.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the income had been reported according to each sector of the Sri Lanka Customs in the statement of income of the Cargo Examination Fees Fund, the sum of Rs.495,809 repaid in the year under review relating to all those sectors had been stated by deducting the total income of the Fund instead of adjusting against the income of each sectors.
- (b) Action had not been taken to bring to account the value that should be accrued to this Fund out of the income of Rs.25,895,605 including under the Head of Miscellaneous Income of the Sri Lanka Customs as at the end of the year under review.

2.2.4 Unexplained Differences

The following observations are made.

- (a) An unexplained difference of Rs.499,200 was observed between the values remained in the consolidated cash flow statement of the Fund and the cash flow statements of the subsidiary funds as compared with it.
- (b) A difference of Rs.12,966,543 was observed on stating the overtime income on accrual basis in the Income Statement in the year under review and on stating on cash basis in the Schedule relating to it.

2.2.5 Lack of Evidence for Audit

Either any necessary Schedules or explanations had not been furnished to audit for the Cargo Examination Fees payable amounting to Rs.79,933,556, liabilities amounting to Rs.349,140 and for the Journal Entry No.AE-OT-03 valued at Rs.46,259,055 stated in the financial statements of the Fund in the year under review.

2.3 Accounts Receivable and Payable

The total of the debtors balances which remained outstanding from 149 institutions as at 31 December 2016 amounted to Rs.209,841,380 and a sum of Rs.23,180,736 out of those debtors or 11 per cent had been debtors balances exceeding 10 years. Further, a total sum of Rs.188,391,441 or 90 per cent of the total loan balance had been balances which remained recoverable to the Fund from 13 main institutions. However, it had been reported to audit that a sum of Rs.61,880,400 of the outstanding money had been recovered by the date of this report and a proper action had not been taken for the recovery of the outstanding loans which remained further recoverable.

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

Even though overtime payments should be made in compliance with the amounts of payment decided from time to time by the Secretary to the Ministry of Finance by inquiring from the Secretary to the Ministry of Public Administration and Management in terms of the Gazette Notification No..1520/17 of 26 October 2007, such an approval had not been obtained for the overtime payments of the Sri Lanka Customs. Further, even though it had made space for a 45 per cent further increase in the payment of the overtime allowance paid up to the year 2013 by the Overtime Committee of the Department, a specific approval had not been received even for it. As such, 27 hours of overtime payment for 24 hours of leave and overtime payments up to 18 $\frac{3}{4}$ hours for a general working day respectively had been made by the Sri Lanka Customs in making the current overtime payments.

Moreover, even though payments can only be made to the staff of the Sri Lanka Customs by the money collected to the Custom Overtime Fund in terms of the Gazette Notification No.1520/17 dated 26 October 2007 issued in terms of Section 103 of the Customs Ordinance, overtime payments had been made under this Fund even for the staff of external institutions non- inclusive of the staff of the Sri Lanka Customs.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the financial result of the Fund for the year under review had resulted in a surplus of Rs.241,772,052 as compared with the corresponding surplus of Rs.190,195,551 for the preceding year, thus indicating an improvement of Rs.51,576,501 in the financial result in the year under review as compared with the preceding year. The increase of the income of the Fund by 03 per cent or by a sum of Rs.36,972,959 as compared with the preceding year and the decrease of the expenditure of the Fund by 1.5 per cent or by a sum of Rs.14,603,542 had been the main reason for the above improvement.

4. Operating Review

4.1 Performance

The fees and payments recovered from various parties for the duties performed during times external to the official times and for the duties executed at places external to the official places of work and the fees recovered from that institution for the supply of technical service to the Board of Investment of Sri Lanka should be credited to the Fund in terms of the Gazette Notification No.1520/17 dated 26 October 2007 issued in terms of Section 103 of the Customs Ordinance. Moreover, payments made to officers for those supplementary duties are considered as a burden of expenditure of this Fund. Sums of Rs.892,733,942, Rs.312,561,714 and Rs.14,976,000 respectively had been collected in the year under review for overtime, cargo examination and information technology activities in the year under review as mentioned above and sums of Rs.561,042,027, Rs.156,280,857 and Rs.11,980,800 respectively had been paid for the officers for those activities.

4.2 Management Activities

The following observations are made.

- (a) The interest received by the end of the year under review after investing the initial deposits amounting to Rs.253,314 in the savings accounts obtained from 75 institutions for which the Sri Lanka Customs had provided services within the period from the year 1967 to the year 1973 had been a sum of Rs.12,661,650. Even though this value had been reported as refundable deposits, any inquiry whatsoever had not been carried out on the existence of the institutions of which the relevant deposits belonging to and a proper action had not been taken to settle those balances.
- (b) The procedure of internal control implemented by the Sri Lanka Customs relating to the deployment of overtime service and payment remained at a weak level and as such, it was observed that the officers had the opportunity to obtain overtime entitlements only by initializing in the Overtime Register. Even though it had been indicated by the audit queries and audit reports on these weaknesses in internal control from several years, any step had not been taken to regularize this condition.

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 of 22 December 2006, the Annual Performance Reports and the financial statements should be furnished to audit within 02 months after the close of the year of accounts. However, the financial statements of the year under review of this Fund had been furnished to audit on 02 March 2017 and the amended financial statements had been furnished to audit on 05 June 2017.

6. Systems and Controls

Deficiencies 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.

Areas of Systems and Controls

Observations

(a) Overtime Payment Control

(i) Non- existence of a proper procedure for obtaining the required approvals for overtime payments and not regularly carrying out the deployment of service, maintenance of registers, monitoring and making payments.

(b) Accounting

(i) Not maintaining Debtor Control Accounts.
(ii) Not deciding the specific standard limits in terms of the value in making journal entries, by the management.