

Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2023

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund of the Department of Customs for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income and expenditure, statement of changes in equity, and fund flow statement for the year then ended and notes to the financial statements, including material accounting policy 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 read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, and its financial performance and fund flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process. As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties;

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Information Technology Fees receivable for the year under review amounting to Rs.1,248,000 was not shown under current assets in the statement of financial position.	The monthly receivable is Rs.1,248,000 and Rs.14,976,000 which is the amount of 12 such installments annually is correctly stated in the account.	The revenue receivables should be accurately reflected in the financial statements.
(b) The liability of Rs.8,736,000 in the Information Technology Fee Fund was shown as Rs.7,488,000 at the end of the year under review understating it by Rs.1,248,000.	The accrued fee due for the year amounting to Rs.2,496,000 with the opening balance of Rs.4,992,000 is aggregated to Rs.7,488,000. Accordingly, the relevant values are correctly stated in the accounts.	The liabilities should be accurately reflected in the financial statements.

1.5.2 Lack of Documentary Evidence for Audit

Subject	Amount Rs.	Audit Evidence not Furnished	Comment of the Management	Recommendation
Although, overtime of Rs.862,061,573, cargo examination fees of Rs.121,696,955, information technology and communication fees of Rs.11,980,800 aggregated to Rs.995,739,328 were paid to the officials during the year under review, the log reports of fingerprints proving the said expenses for reporting to duty were not submitted for audit.	995,739,328	Log reports of fingerprints	Although, according to the Public Administration Circular 09/2009, the arrival and departure of officials should be confirmed by the use of fingerprint recording machines, due to the nature of the work of the Customs Department, it has been practically difficult to implement it. Therefore, a formal signature register is maintained as per the format of General 18 to record the arrival and departure of officers of the department and a	In accordance with the Public Administration Circular, fingerprint machines should be used.

separate formal register is also maintained for leave registers and customs overtime with the approval of a staff officer and proper attestation. Therefore, I do not agree with the audit opinion as the relevant payments have been made after proper approval.

1.6 Funds Receivable

Audit Observation	Comment of the Management	Recommendation
<p>The outstanding balance of overtime fund as at 31 December 2023 was Rs.67,546,519, of which the outstanding balance of more than 5 years was Rs.260,180, and the total of outstanding balances from 1 to 4 years was Rs.5,127,283. Meanwhile, there were 5 airlines and 9 shipping companies/warehouses that were in arrears from Rs.1 million up to Rs.1.8 million. The department had not taken prompt action to recover the outstanding balances.</p>	<p>In order to recover the unpaid balance, issuing letters to the relevant institutions asking them to pay the amount, stopping the issuance of registration numbers until the arrears are paid, not updating the annual bonds until the arrears are paid, etc.</p>	<p>Measures should be taken to recover the outstanding loan balances promptly.</p>

1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
<p>(a) Special Gazette of the Democratic Socialist Republic of Sri Lanka No. 17/1520 of 26 October 2007.</p>	<p>Although, there should have been a procedure approved by the Secretary to the Ministry of Finance for making payments to the customs officials from the cargo examination fee account, such a procedure had not been approved.</p>	<p>After perusing the files further, it was noted to look into this.</p>	<p>Compliance to Special Gazette is required.</p>
<p>(b) Department Order No. 855 of 01 March</p>	<p>Although, the Director General had approved</p>	<p>In order to revise the existing fees, charges</p>	<p>The approval of the Ministry of Finance</p>

2013 and Department Order No. 1274 of 01 October 2018. subject to the final recommendation of the Overtime Committee to increase the hourly overtime rate approved in 2004 by Order No. 855 by 45 per cent, and to increase the then paid hourly overtime rate by 50 per cent by Order No. 1274 in 2018, the audit could not confirm that the final recommendations of the Overtime Committee were received or approved by the Ministry of Finance for these two orders. and overtime amounts (rates) collected by the Customs Department, a gazette is currently being prepared and submitted for the approval of the Ministry of Finance as per the recommendations of the Fees and Charges Sub-Committee and the Overtime Committee. and the Overtime Committee should be obtained.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.123,832,043 as compared to the corresponding deficit of Rs.181,029,338 for the preceding year. Therefore, an improvement of Rs.57,197,295 was observed in the financial results. This improvement had mainly been attributed by the decrease in overtime payment by Rs.76,811,047.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The sum of Rs. 220,418 deposited in Sri Lanka Customs by 65 institutions from the year 1967 to the year 2007, had been saved in normal savings accounts; hence, an interest of Rs.13,062,659 had been earned by the end of that year whilst the total value of the investment account amounted to Rs.13,283,077 by the end of that year. Nevertheless, the said balance had been removed from the accounts without doing any investigation on the going concern of those institutions, their ability to provide services further, and liaison with the Department.	The money related to the 65 institutions mentioned here has not been deposited in the name of the Customs Department; nonetheless the respective account books have been kept in the custody of the Customs Department as a safeguard. However, the balances (with interest) of the 65 respective bank accounts were erroneously credited to the Customs Department accounts. This situation has arisen as a result of correcting the incorrect accounting in the year under review.	Conducting an investigation on further service provision; relationship with the department etc., relevant balances should be removed from the accounts.

- (b) From the year 2019, there was an expenditure that exceeded the income of the overtime fund and the deficit had gradually grown annually. Accordingly, in the period of the last 5 years, the total expenditure exceeding the customs overtime income was Rs. 638,933,884 and the balance of the accumulated fund has been gradually declining since the year 2019 due to the use of accumulated funds to cover the expenditure exceeding the income. Accordingly, the balance of the accumulated fund which was Rs.2,275,913,245 in the year 2019 had decreased to Rs.1,636,979,362 as at 31 December 2023 by Rs.638,933,884. This was due to the fact that payments were made in excess of the collected overtime income. However, the management had not investigated the reasons for this.
- In accordance with the government regulations issued from time to time, the overtime fee collected has been reduced due to the charging of fees which have not been updated as per the Extraordinary Gazette 1520/17 dated 26.10.2007 and its amendments. A fee collection committee has been appointed to review and update the customs overtime, cargo inspection fees and revenue collection under the Customs Information and Technology Communication Fund, and based on the recommendations of the committee, the above rates are being updated in the future and efforts are being made to increase the revenue of the overtime fund.
- No payment should be made in excess of the collected overtime income.
- (c) 90 percent of the customs overtime fund was paid to the officers as overtime without confirming whether the officers worked outside of their normal duties and a small amount of Rs. 251,611,691 was credited to the state revenue out of the total overtime income collected within the period of 2021 to 2023 of Rs.2,516,116,911 . Accordingly, the management had to review the amount credited to the state revenue.
- Although, as per (4) 3 of the Special Gazette No. 1520/17 dated 26.10.2007 related to Customs Overtime and Cargo examination fee and as per (3) 5 (a) of the Special Gazette No. 1829/39 dated 27.09.2013 relating to Customs Information Technology and Communication Fund, it has been decided regarding the amount paid to officials and the amount credited to government revenue. Accordingly, the payment of this fund will be made.
- There should be a review of the amount credited to the state revenue.
- (d) Although, as per Department Order No. 1140 dated 27 February 2017, to claim the customs cargo examination fees, it is stated that reporting for duty must be done on weekdays before 06.00 AM and on
- Although, according to the Public Administration Circular 09/2009, the arrival and departure of officials should be confirmed by the
- The payments should be made after obtaining confirmations of

weekends and public holidays before 9.00AM. and failing which there is no entitlement to examination fees. However, From the year 2012 to the year 2023, without verification of the arrival/departure of Sri Lanka Customs staff as per existing circulars, Rs. 3,334,759,284 had been paid as examination fees.

use of fingerprint recording machines, due to the nature of the work of the Customs Department, it has been practically difficult to implement it. Therefore, to record the arrival and departure of the officials of the Sri Lanka Customs Department, a formal signature register is maintained as per common form 18, and a separate formal register is also maintained for leave documents and customs overtime and for the same with the approval of a staff officer. Since overtime payments have been made after proper verification, I do not agree with the audit opinion.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>The revenue collected to the Fund for the year under review with respect to overtime, cargo examination and Information Technology, amounted to Rs.820,263,153 Rs.243,393,910 and Rs.14,976,000 respectively. The officers involved in those tasks had been paid a sum of Rs.862,061,573 equivalent to 105 per cent of the overtime revenue, 50 per cent of the cargo examination revenue amounting to Rs.121,696,955 and 80 per cent of the revenue through Information Technology amounting to Rs. 11,980,800. The following matters were observed in the said payment process.</p>	<p>Analyzing the facts pointed out in the previous audit reports, efforts are being made to</p>	<p>The overtime payment process currently applied should be reviewed.</p>
<p>(i) Despite being continuously pointed out in the previous audit reports that payments were not made under proper control through the Overtime</p>		

Fund, no action whatsoever has been taken thus far to formalize this process.

further streamline the payment system.

- (ii) Compared to the year 2022, the overtime income in the year 2023 had decreased by Rs.21,217,698. Furthermore, Rs.41,798,420 was paid to the officials as overtime expenses in excess of the overtime income collected during the year.
- The reason for the decrease in overtime income is given above. However, compared to the year 2022, the overtime expenditure of the year 2023 has been decreased by Rs. 76,811,047.
- Revenue should be properly managed.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
<p>A revenue of Rs. 1,053,337,500 had been estimated for the Overtime Fund for the year 2023 whereas the actual revenue earned amounted to Rs.820,263,153, hence, an unfavorable variation of Rs.233,074,347 was observed in the actual revenue over the estimated revenue. This indicated a deterioration of 22 per cent of the estimated revenue. The decrease in revenue by Rs.173,625,308 under sub-head, "Colombo" and decrease in revenue by Rs.26,570,200 under sub-head, "Imports" had mainly attributed thereto. Accordingly, an excess revenue of Rs. 3,750 was expected as per budget estimated of the Overtime Fund though, a deficit of Rs.123,832,043 had resulted in.</p>	<p>Accumulated overtime fee has decreased due to charging of non-updated fee amounts. In this regard, a fee collection committee has been appointed to review and update, and based on the committee's recommendations, the above rates will be updated in the future and efforts are being made to increase the income of the overtime fund.</p>	<p>The budget should be made use of as an effective instrument of management control.</p>