

Customs Overtime and Cargo Examination Fund - 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Customs Overtime and Cargo Examination Fund as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though it had been stated that the debtors balances amounting to Rs.611,156 and Rs.534,773 relating to the years 2002 and 2004 under BOV-CTV-Orugodawatta had been set off against the water bills of that institution, the necessary adjustments had not been made in that connection.

Similarly, the sum of Rs.1,097,245 receivable from that institution for the year 2005 had been written off against the Accumulated Fund in the year 2008 without carrying out a formal investigation and approval, that amount included expenditure on water and electricity bills amounting to Rs.708,656 that should be borne by the Consolidated Fund. This error was pointed out in the year 2010 as well.

1.2.2 Unidentified Transactions

Action had not been taken to identify and settle the 08 balance of current assets and current liabilities amounting to Rs.7,017,198 and Rs.1,730,375 respectively brought forward over a number of years. This matter was pointed out in the audit reports for the years 2008, 2009 and 2010 as well. The reply of the Director General of Customs in that connection was that action will be taken in the ensuing year to settle the amount. Nevertheless, action for settlement had not been taken even during the year 2011.

1.2.3 Accounts Receivable

The following observations are made.

- (a) The balances of accounts receivable amounting to Rs.40,839,267 shown in the financial statements included 07 debtors balances each exceeding Rs.1 million totalling Rs.16,960,226 and those represented 41.53 per cent of the total outstanding balances. Nevertheless, the outstanding debtors balances of those debtors as at 30 June 2012 totalled Rs.7,663,201.
- (b) Out of the total debtors, a sum of Rs.12,460,515 or 30.51 per cent had been balances older than 07 years. Out of that, a sum of Rs.6,459,537 or 51.84 per cent had been outstanding for more than 20 years. Provisions for bad debts had not been made for those balances which are doubtful of recovery. A formal course of action had not been taken even during the current year for the recovery of money from the debtors remaining over periods exceeding 07 years. There was no evidence of any action taken to ascertain whether certain institutions shown as debtors are in existence.
- (c) Security deposits had not been obtained for certain debtors balances.

1.2.4 Special Deposits and Investments

The balance of the Special Deposits Account amounting to Rs.10,063,434 shown in the balance sheet as at 31 December 2011 represented the money obtained from 75 institutions as deposits and the interest earned from such money.

The following observations are made in this connection.

- (a) The documentary information in support of the objectives for which such deposits were obtained was not furnished to audit.
- (b) Action taken to ascertain whether institutions from which deposits were obtained are in existence was not observed and whether such deposits are refundable could not be established.
- (c) The interest earned by investing the deposits obtained from the year 1967 in Savings Accounts amounted to Rs.10,604,999 as at the end of the year under review. The said interest and the deposits totalling Rs.10,063,434 had been shown in the balance sheet as investments and as a liabilities in the form of special deposits.
- (d) A very low interest income had been earned by investing the money in Savings Accounts and any action taken to utilize the money in a better investment was not observed.

1.2.5 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to the unavailability of the evidence indicated against each items.

Item	Amount	Evidence not made available
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	Rs.	
(a) Sundry Debtors	40,839,267	Confirmation of Balances relating to the debtors balances outstanding from 178 institutions.
(b) 08 Items of Accounts	8,747,573	Documents for confirmation

1.2.6 Non-compliance with Laws, Rules and Regulations

The following non-compliance were observed.

- (a) Time card machines had been introduced by the Public Administration Circular No. 15/2001 of 07 August 2001 for marking the times of arrival for duty and departure of the officers of Sri Lanka Customs. The majority of the officers maintain a register in each Branch for marking the time of arrival instead of using the Time Card Machines for the purpose.
- (b) Financial Regulation 175 (2) requires the officers collecting arrears to be more careful while action in terms of laws should be taken promptly. Nevertheless, such action had not been taken for the recovery of arrears amounting to Rs.40,839,267.

1.2.7 Transactions not Supported by Authority

Irregular internal regulations had been formulated allowing the officers of Sri Lanka Customs to claim more than 600 hours of overtime per month at 12 to 27 hours per day and the formal approval obtained for that had not been furnished to audit. This overtime scheme is not a process controlled by the general regulations of the Government. As the majority of the officers do not use the time card machines as referred to in paragraph 2.2.7 (b) of this report, the accuracy of the overtime paid has become a questionable issue.

1.2.8 Transactions of Contentious Nature

The following observations are made.

- (a) An audit test check of 10 officers attached to the Export Division carried out in June of the year under review revealed that those officers had been paid overtime up to 650 hours per month. Those officers had been reported as deployed in the examination of external containers while being deployed on overtime and paid Rs.18,000 to Rs.68,700 per month as the examination fees of external containers.
- (b) Even though requests were made to furnish documents supporting the payments made by the Export, Bonded and Baggage Divisions in April and May 2011, to audit, the required information had not been furnished even up to August 2012. Such information in respect of the years 2008 and 2009 had not been furnished to audit as those were reported as deleted in the computer and as such adequate evidence needed to authenticate the accuracy of payments made was not made available to audit. As such the accuracy of the cargo examination fees amounting to Rs.341,098,003 paid could not be examined in the year under review.
- (c) The above allowances had been paid in addition to the monthly salaries, incentive allowance, overtime and rewards paid to the officers. The Overtime earnings of most of the officers had exceeded their monthly consolidated salaries. According to the existing regulations, the maximum number of hours for which an officer can be deployed on overtime during a year is about 6,900 hours. Instances of payment of overtime by deploying officers on overtime exceeding 95 per cent of the maximum number of hours were observed. Accordingly, it appears payments had been made on the basis of that most of the officers had been on duty for 24 hours per day throughout the year even without obtaining leave. Such status is not realistic.
- (d) The serious internal control weaknesses prevailing in the process of payment of overtime, container examination fees, incentive allowances, travelling expenses, etc, were brought to the notice of the Director General of Customs regularly throughout the preceding years. Such payments made under an irregular

procedures are transactions of contentious nature. Even though this procedure relating to overtime and examination of fees of external containers needs to be revised by amending the outdated regulations, no course of action whatsoever had been taken.

2. Financial Review

2.1 Financial Results

Even though the financial statements under the name of Customs Overtime and Cargo Examinations Fund had been presented for the year under review, the Income and Expenditure Account disclosed only the financial results relating to the Overtime Fund. Nevertheless, the operating surplus of the Fund for the year ended 31 December 2011, according to the financial statements presented, amounted to Rs.171,182,085 as compared with the corresponding surplus of Rs.167,201,514 for the preceding year. Thus an improvement of Rs.3,980,571 in the financial results was indicated. The improvement of the overtime income collected by the offices around Colombo by 14 per cent had mainly attributed to such increase.

3. Operating Review

3.1 Performance

(a) Overtime Fund

The money collected from the external clearance centres and the other institutions as overtime fees to meet the expenditure of the officers of the Customs deployed outside the normal duty hours of the Customs staff and on the days the Customs is normally closed, is credited to this Fund and the payments made to the Customs staff for such overtime services are considered as the expenditure of the Fund.

An analysis of the financial results of the Overtime Fund for the year ended 31 December 2011 and the 07 preceding years is given below.

Year	Income	Expenditure	Surplus	Percentage of Improvement / (Deterioration) in Financial Results compared with preceding year	Surplus as a percentage of the Income
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	Rs.	Rs.	Rs.		
	Millions	Millions	Millions		
2003	314.442	257.511	56.931	-	18.11
2004	336.786	302.717	34.069	(40.15)	10.12
2005	381.696	367.750	13.946	(59.06)	3.65
2006	490.012	384.789	105.223	654.52	21.47
2007	576.415	425.920	150.495	43.02	26.11
2008	576.671	424.275	152.396	1.26	26.43
2009	465.837	410.236	55.602	(64)	12.00
2010	583.491	416.289	167.202	200	28.64
2011	593.065	421.883	171,182	2.38	28.86

The following observations are made in this connection.

- (i) The expenditure incurred on the staff from the Fund in the year under review amounted to Rs.362,297,078 and that amounted to Rs.357,895,120 in the preceding year. According to information made available, the overall staff of the Sri Lanka Customs as at the end of the year under review had been 1,990 and the average overtime cost per employee amounted to Rs.182,059. The overtime expenditure met from the Consolidated Fund under the Appropriation Head of Sri Lanka Customs was not included in the computation of the average overtime cost per employee. The overtime costs incurred under the Departmental Head in the year 2011 amounted to Rs.1,893,780.

- (ii) Despite the payment of the overtime of the staff of Sri Lanka Customs from the Overtime Fund in the year under review, action had not been taken to credit the surplus of the Overtime Fund to the Consolidated Fund.

(b) Cargo Examination Fund

 Out of the examination fees collected from the parties who get the goods cleared, for the deployment of the Customs Officers deployed outside the places of normal duty, 50 per cent is credited to the Cargo Examination Fund and that money is utilized to pay allowances to officers. A sum of Rs.223,521,968 had been received by the Fund during the year under review and the total, including the brought forward balance, amounted to Rs.593,167,825. The expenditure incurred during the year under review amounted to Rs.341,098,003. The deposits of the Fund as at the end of the preceding year amounting to Rs.369,645,857 had decreased to Rs.252,069,822 by the end of the year under review.

3.2 Management Inefficiencies

 The following observation is made.

The unused money of the Fund had been brought forward year after year as Treasury deposits. The balances of the Deposit Account and the Fund had been improving as shown below. It was observed that necessary steps had not been taken on the money by holding discussions with the Treasury.

Year	Overtime Fund	Cargo Examination Fund	Balance of the Treasury Deposit Account
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	Rs.	Rs.	Rs.
2005	28,007,949	-	28,007,949
2006	254,940,825	93,672,857	348,613,682
2007	451,423,786	157,259,952	608,683,738
2008	616,810,938	246,576,326	863,387,264
2009	669,350,013	322,004,787	991,354,800
2010	849,082,264	369,645,856	1,218,728,121
2011	1,022,822,795	252,069,822	1,274,892,617

4. Accountability and Good Governance

Budgetary Control

Material variances were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. 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.

- (a) Budget
- (b) Staff
- (c) Arrears of Income
- (d) Overtime and Container Examination Fees
- (e) Accounting