

## **Customs Officers' Management and Compensation Fund - 2013**

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The audit of financial statements of the Customs Officers' Management and Compensation Fund for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of income and cash flow and 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 on the said financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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 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 judgment, 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 Audit 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 Officers' Management and Compensation Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **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) The photocopy machine purchased for Rs.104,720 at the sub Office, Galle had been accounted for, under recurrent expenditure.
- (b) Depreciation had been made for an asset which had been erroneously capitalized during the previous year and an asset which had been fully depreciated. As a result, the depreciation for the year under review had been overstated by Rs.374,817.
- (c) The balance of the provision for depreciation of Library Books Account had been overstated by Rs.97,403.

#### **2.2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non compliances were observed.

<b>Reference to Laws, Rules, Regulations</b>	<b>Non compliances</b>
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(a) Treasury Circular No.842 dated 10 December 1978	A register of fixed assets had not been maintained for non-current assets aggregating Rs.136,343,215.
(b) Treasury Circular No. IAI/2002/02 dated 28 November 2002.	The details of computer accessories and softwares had not been descriptively maintained in a separate register.

### **2.3 Unexplained Variations**

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The sum of Rs.405,594 transferred to the Fund relating to the incident No.CE/MO/RL/15/2012 had not been reported to the Treasury through monthly summaries. As a result, there was a difference of Rs.405,594 between the departmental books and the Treasury books.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the operating surplus of the Fund for the year under review amounted to Rs.478,770,293 as compared with the previous year's surplus of Rs.322,866,312. As a result, an improvement in financial result of Rs.155,903,981 was observed. The increase in income from fines and other income of the Fund amounting to 94.59 per cent and 363.9 per cent respectively had primarily attributed to the improvement in financial results as compared with that of the previous year.

### 4. Operating Review

#### 4.1 Performance

According to the information furnished, an analysis of the financial results of the Fund for the year under review and the previous year appear below.

<b>Income/ Expenditure</b>	<b>year 2013</b>	<b>Income/ Expenditure as a percentage of total Income. Expenditure</b>	<b>Year 2012</b>	<b>Variance</b>	<b>Percentage of Variation</b>
<u>Income</u>	Rs. "000"		Rs. "000"	Rs. "000"	
Sales	109,869	19	115,092	(5223)	(5)
Fines	479,999	81	246,677	233,322	95
Other Income	3,019	1	651	2,368	364
Total Income	592,887	100	362,420	230,467	64
<u>Expenditure</u>					
Local training	12,063	11	10,460	1,603	15
Foreign training	51,314	45	21,916	29,398	134
Postgraduate courses	26,107	23	2,600	23,507	904
Other expenditure	24,633	22	4,578	20,055	438
Total expenditure	114,117	100	39,554	74,563	189
Surplus	478,770		322,866	155,904	48

The following observations are made.

- (a) Fifty per cent of the fines imposed on goods confiscated during customs check and the income derived from selling the confiscated goods are allocated for rewards. 40 out of 50 per cent of the balance is credited to the Customs Officers' Management and compensation Fund. During the year under review, the contributions credited to the Fund from fines and income from sale of confiscated goods were 81 per cent and 19 per cent respectively.

- (b) During the year under review, an expenditure of Rs.51.31 million and a sum of Rs.26.11 million had been incurred on training abroad and postgraduate courses respectively and it was 45 per cent and 23 per cent respectively of the total expenditure.
- (c) Twenty two per cent of the total expenditure had been incurred on local training under other expenditure. In spite of this, low cost of 11 per cent had been incurred on local training pertaining to the improvement of management efficiency. Accordingly, it was observed that adequate attention had not been paid to promote the local training mechanism.
- (d) The main objectives of this Fund are to incur local and foreign expenditure to promote the productivity of customs officers and to pay compensation to officers who meet with accidents. However, specific criteria had not been identified for the promotion of efficiency of customs management and to pay compensation to officers though money had been allocated to this Fund. As a result, the accumulated balance of the Fund is being continuously increased annually. Accordingly, the balance of the Accumulated Fund as at 31 December amounting to Rs.3,410 million had become Rs.3,889 million as at 31 December 2013 showing an increase of Rs.479 million.

#### **4.2 Management Inefficiencies**

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Clear criteria had not been identified to select officers participating at foreign training programmes and foreign workshops and as such, during the year under review, instances were observed where procedures had not been followed. Officers had been irregularly selected and allowed to participate in the foreign workshops in 2 instances.

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

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Eventhough the expenditure totaling Rs.6,058,478 had to be incurred from Appropriation Expenditure Heads during the year under review in 5 instances, that expenditure had been spent from the Fund. In this connection, the Director General of Customs had informed that the expenditure had been incurred to improve management by improving the efficiency.

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

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

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According to the Public Finance Circular No.PF/423 dated 22 December 2006, the annual performance reports and the financial statements of the Fund should be furnished within 2 months after closure of the financial year. However, the financial statements for the year under review had been furnished on 02 May 2014.

## **5.2 Budgetary Control**

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The following observations are made.

- (a) A sum of Rs.14,778,674 had been incurred by the Fund on 4 objects which had not been approved by the budget.
- (b) A sum of Rs.102,777,090 had been spent in excess of the limits of expenditure of the department with regard to 3 objects during the year under review.
- (c) During the year under review, variances upto 100 per cent were observed between the actual income and expenditure and the budgeted income and expenditure on 3 instances. Thus it was observed that the budget had been prepared to meet the legal requirements and had not been utilized as an effective financial control instrument.
- (d) A sum of Rs.93.3 million had been spent from the Management and Compensation Fund in addition to the amount provided for 3 objects of the Department.
- (e) The annual budget should be approved before 15 September of the previous year in terms of Public Finance Circular No.PF/423 dated 22 December 2006. However, the approval for the budget of the year under review had been obtained after a delay of 7 months, that is, on 17 April 2013.

## **6. Systems and Controls**

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Deficiencies observed during the course of audit were reported to the Director General of Customs from time to time. Special attention is needed in respect of the following areas of control.

- (a) Identifying criteria for the improvement of management efficiency of Customs officers.
- (b) Fixed assets
- (c) Funds utilization
- (d) Reconciliation procedure
- (e) Expenditure on foreign travel
- (f) Budget
- (g) Accounting