

# **Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2014**

---

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 2014 comprising the balance sheet as at 31 December 2014 and the income and expenditure account, 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 in respect of the aforesaid financial statements 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)

## **1.4 Basis for Disclaimer of Opinion**

---

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the balance sheet, income and expenditure account and cash flow statement.

## **2 Financial Statements**

---

### **2.1 Disclaimer of Opinion**

---

Because of the significant of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **2.2 Comments on Financial Statements**

---

#### **2.2.1 Accounting Deficiencies**

---

The following observations are made.

- (a) Income and expenditure of Rs.6,240,000 and Rs.11,232,000 respectively belonging to the Customs Information and Communication Technology Fund had been included in the Cargo Examination Fees Fund Account without being specifically identified.
- (b) The cash balance of Rs.1,263,653,478 shown in the balance sheet as at 31 December 2014 had been shown as Rs.1,163,604,978 as a result of non-preparation of cash flow statement accurately.
- (c) Overtime totalling Rs.1,587,000 receivable from 04 Air Lines for the period from October to December in the year 2014 had not been brought to account.
- (d) Even though provisions for bad debts had been made at 5 per cent for Rs.21,728,553 out of the total debtors balance amounting to Rs.187,062,591 , this balance had been remaining outstanding for more than 10 years. As a result, it was observed that adequate provisions for bad debts had not been made for those balances considering uncertainty in the determination of the percentage of provisions.
- (e) Instead of being accounted as the income of the Fund, an income amounting to Rs.11,232,000 of the year under review had been credited to the General Deposit Account.

### **2.3 Accounts Receivable**

-----

The following observations are made.

- (a) A sum of Rs.167,702,402 or 89.65 per cent out of the debtors balance of Rs.187,062,591 as at 31 December 2014 remained recoverable from 9 institutions.
- (b) Action had not been taken to settle the current liabilities totalling Rs.1,730,375 and current assets totalling Rs.7,017,198 brought forward as immovable Objects over a number of years.

### **2.4 Lack of Evidence for Audit**

-----

Letters of confirmation of balances in support of 30 debtors balances totalling Rs.174,342,471 selected on sample basis as at 31 December 2014 had not been presented to audit.

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

-----

Action in terms of the Gazette Extraordinary No.1520/17 of 26 October 2007 had not been taken to suitably invest the deposits obtained in connection with the bonds entered into with 102 Shipping Agencies .

### **3. Financial Review**

-----

#### **3:1 Financial Results**

-----

According to the financial statements presented, the operation of the Fund for the year ended 31 December 2014 had resulted in a surplus of Rs.73,157,047 as against the deficit of Rs.20,318,093 for the preceding year. The operating result of the year under review had increased by Rs.93,475,140 as compared with the preceding year. The increase of overtime income by 20 per cent had been the main reason for the increase.

### **4. Operating Review**

-----

#### **4.1 Management Inefficiencies**

-----

The following observations are made.

- (a) An increase from Rs.28,007,949 to Rs.1,724,501,472 of unused cash balance of the Overtime Fund and the Cargo Examination Fees Fund from the year 2005 was shown, whereas action had not been taken to utilize that money in a suitable investment in consultation with the Treasury.
- (b) The audit test check carried out on the payment of external examination fees of the Export Division during January to April of the year under review revealed that external examination fees ranging from Rs.32,413 to Rs.194,000 had been paid to officers as duties had not been assigned to the officers in a manner that the officers receive equal opportunities for the external examinations.
- (c) In the payment of cargo examination fees for the deployment of Customs Officers in any office or station other than their normal working place, the relevant payment should be made in accordance with a procedure approved by the Secretary to the Ministry of Finance in terms of the Gazette Notification No.1520/17 dated 26 October 2007. Nevertheless, the cargo examination fees paid without an approval during the first quarter of the year 2014 amounted to Rs. 15,020,515 .
- (d) Bills for overtime for the last 4 months of the year 2011 and years 2012 and 2013 receivable from the Sri Lankan Air Line Company had been issued in January and February in the year 2015 .Accordingly, the supervision of the Top Management in respect of the collection of overtime income of the Fund was at a weak level. Further, it was observed that the income of the Fund had been un- necessarily retained with an external party due to the failure of the responsible parties to recover the overtime income within the due time period.

- (e) Even though details on arrival and departure of the air crafts had been directly obtained by an officer of the Accounts Branch from the Sri Lankan Air Line Company when preparing of invoices for the overtime receivable from the Air Lines, the assurance of an authorized officer on the accuracy of this information or an intervention of the Customs was not observed. The bills prepared in this manner had not been re-checked.

**4.2 Operating Inefficiencies**  
-----

The interest earned from investing the initial deposits amounting to Rs.263,500 obtained from 75 institutions from the year 1967 to 1973 in savings accounts amounted to Rs.11,434,993 by the end of the year under review. A very low interest income had been earned due to investment of the money in Savings Accounts over a number of years . Even though this matter had been pointed out continuously in the audit reports over a number of years , action had not been taken to invest the money in another suitable investment. Similarly ,a difference of Rs.8,545 existed between the balances according to the Bank Pass Books and the balances shown in the financial statements in respect of 5 institutes.

**4.3 Transactions of Contentious Nature**  
-----

Overtime allowance of the officers had been increased by 45 per cent during the year 2013 on the recommendation of the Overtime Review Committee of the Department without proper approval.

**5. Accountability and Good Governance**  
-----

**5.1 Presentation of Financial Statements**  
-----

Even though in terms of Public Finance Circular No.PF/423 of 22 December 2006, the Annual Performance Reports and the financial statements of the Funds should be furnished to the Auditor General within 02 months from the close of the year of accounts ,financial statements of the year under review and the amended financial statements had been furnished on 12 May 2015 and 16 July 2015 respectively.

**5.2 Budgetary Control**  
-----

Even though, the approval for the Annual Budget should be obtained from the relevant Minister before 15 September of the prior year in terms of Public Finance Circular No.PF/423 of 22 December 2006 ,the approval for the budget of the year under review had not been obtained.

**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.

- (i) Financial Control
- (ii) Overtime Payment Control
- (iii) Accounting
- (iv) Maintenance of Ledger Accounts and Records