

Customs Officers Reward Fund - 2015

The audit of financial statements of the Customs Officers Reward Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the statement of comprehensive income, the statement of changes in equity 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 which I consider should be published with the Annual Report of the Department, appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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. I conducted my audit 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 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Customs Officers Reward Fund as at 31 December 2015 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 Lack of Evidence for Audit

The case files relating to the requests made to conduct further investigation on a public complaint received against the payment of reward exceeding Rs.85,000,000 to an officer in the year 2008 and a payment of reward exceeding Rs.90,389,735 to another 05 officers in the year 2015 had not been furnished to audit.

2.2.2 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.9,529,435 between the registers maintained by the Treasury for the activities of the Fund and the register maintained by the Department was observed as at 31 December 2015.
- (b) A difference of Rs.868,786 was observed between the money required to be credited to 03 Sub-funds of that Fund during the year under review in terms of the provisions in the Departmental internal circular No.118 for the payment of rewards and the actual amount credited.
- (c) Even though a sum of Rs.135,238,202 had been stated as the value of the rewards payable to the pool officers in the statement of changes in equity as at 31 December 2015, a sum of Rs.134,340,019 had been accrued in the balance sheet for that purpose. As such, difference of Rs.898,183 was observed.

2.3 Accounts Payable

Even though rewards totalling Rs.43,900,183 unclaimed by the officers had accumulated over a number of years by 31 December 2015, action had not been taken to settle that money properly.

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

In terms of Section 4.1(c) of the Public Finance Circular No.PF/423 dated 22 December 2006, although provisions had not been made in the approved budget in respect of the payment of Narcotics Fund, expenditure of Rs.34,400,000 had been incurred out of that Fund during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2015 had resulted in a surplus of Rs.63,330,362 as compared with the corresponding surplus of Rs. 36, 526,769 in the preceding year, thus indicating an increase in

the financial results by Rs.26,803,593 or 73 per cent during the year under review as compared with the preceding year. Although total expenditure of the year under review had increased by Rs.223,450,785 or 16.75 per cent as compared with the preceding year, the increase of the total income by Rs.250,254,378 or 18.26 per cent had mainly attributed to the increase in the financial results.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) An amount of money equivalent to 50 per cent of the penalty imposed for the various customs faults in terms of Section 153(2)(b) of the Customs Ordinance and the money received from the sale of forfeiture goods are credited to the Customs Officers Reward Fund and this Fund had been established with the objective of disclosing, controlling and preventing the customs duty frauds.

What was observed in the examination of the data relating to the several preceding years that, whether a considerable control or decrease of the Customs duty fraud had occurred through the Customs Rewards Scheme was questionable.

- (b) Some details on the number of Customs investigations conducted during the preceding 05 years and the amount allocated to the Fund for the payment of rewards are specified below.

Year	No.of Investigations	Ammount Allocated to the Fund
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		Rs.
2011	128	737,048,629
2012	183	950,983,391
2013	200	1,447,375,243
2014	258	1,323,251,133
2015	296	1,545,350,576

In the examination of above data, it is observed that the Customs duty frauds have annually increased, the number of customs investigations finalized has gone up while the financial value of the rewards paid to the officers and the informants has expeditiously increased. Accordingly, the requirement of making timely amendments to this scheme was observed for the achievement of the objectives of the Fund.

- (c) As the Government tax income deprived in the imposition of penalty for the customs faults had been considered as a part of that penalty, an increase in the value of the rewards paid to the officers as well as the value of the money allocated for this Fund was observed.
- (d) Under the Departmental Order No.118 issued in terms of Section 153(2)(B) of the Customs Ordinance, the scheme of the distribution of rewards among the officers and

the informants had been introduced and sums totalling Rs.4,589,509,862 comprising Rs.822,569,372, Rs.1,268,050,168, Rs.1,142,901,944 and Rs.1,355,988,378 had been distributed among the officers and the informants during the years 2012,2013,2014 and 2015 respectively. Out of that, a sum of Rs.4,099,362,874 or 89.32 per cent had been paid to the officers.

- (e) The Customs Ordinance as well as legal provisions of these Funds had not been properly and timely amended to suit to the complexity occurred in the imports and the exports as a result of the present independent economic policy.
- (f) Even though the amount allocated for the Fund during the year under review was Rs.1,545 million, the amount paid as the rewards was Rs.1,590 million. The difference of Rs.45 million had been paid by two Sub-funds of the Fund.
- (g) During the year under review, a sum of Rs.15,491,105 had been credited to the Narcotic Drugs Fund to which 1 per cent out of the Customs Fund is allocated and a sum of Rs.34,400,000 had been paid to the officers engaged in the drugs prevention activities during the year under review. It is an increase of Rs.26,775,548 or 351 per cent as compared with the expenditure of Rs.7,624,452 of the previous year. Accordingly, a requirement for increasing in the amount allocated by the Rewards Fund for the drugs investigations was observed. However, 12 Narcotic raids had been carried out during the year under review and it was observed in audit as a considerable assistant for the control of narcotic drugs.
- (h) During the year under review, a sum of Rs.45,112,577 had been credited to the Fuel Fund to which 1.485 per cent of the income collected to the Customs Officers Rewards Fund. Although the settlement of fuel expenses required for the customs investigations had been stated as the objective of the establishment of that Fund, no expenditure whatsoever had been incurred out of that Fund during the year under review. Further, the income received from the Customs investigations had been credited to the Rewards Fund and rewards had been paid, whereas the fuel expenses incurred for the investigations had been borne under the General Head of the Department.
- (i) A sum of Rs.23,068,449 had been credited to the "2.5 Per cent Reward Fund" , a Sub-fund of the Customs Officers Rewards Fund during the year under review and the amount paid to the officers out of that Fund was Rs.23,392,357. It was observed that this Fund had been used for the payment of rewards to the relevant officers in case of certain activities done by the officers are not Customs investigations liable to impose penalties.

4.2 Transactions of Contentious Nature

The Sri Lanka Customs had not settled a bond liability valued at Rs.109,400,000 maintained by the Ceylon Petroleum Corporation relating to the period from 1996 to 2002 in Sri Lanka Customs, even by January 2014. However, after a Customs investigation conducted in this connection, the Petroleum Corporation had paid a sum of Rs.57,736,913 to the Sri Lanka

Customs and the Sri Lanka Customs had paid a sum of Rs.28,868,456 out of that sum as the reward money to the Customs Officers.

The payment of rewards to the officers by recovering a part of the bonds receivable from the Ceylon Petroleum Corporation, which is a public institution, was a matter of contentious nature and it was observed that the recovery of the relevant money was a responsibility of the Sri Lanka Customs. It was further observed according to the documents that the General Treasury had agreed to reimburse this amount to the Ceylon Petroleum Corporation which had been paid to the Sri Lanka Customs by the Ceylon Petroleum Corporation. Further, it was not observed that the Sri Lanka Customs had taken proper action in connection with the bonds valued at Rs.51,663,087 omitted out of the total bonds amounting to Rs.109,400,000.

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 dated 22 December 2006, the annual financial statements of the Funds should be furnished to audit within 02 months from the close of the year of accounts. Nevertheless, the financial statements of the year under review had been furnished on 05 May 2016.

5.2 Budgetary Control

Variances ranging from 40 per cent to 144 per cent were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies 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 System and Control

(a) Payments of Rewards

Observations

As a register containing the particulars such as dates in which the files relating to the payments of rewards were received to the Accounts Branch and the dates in which the funds were received had not been maintained by the Accounts Branch, the methods of payment of rewards had become irregular.

(b) Computation of Rewards

In the computation of rewards, a practical computation method had not been adopted so as to secure the Government tax income, control the Customs duty frauds and receive a

maximum disadvantage to the parties engaged in the Customs duty frauds.

(c) Accounting

- A formal accounting system had not been maintained and the financial statements had been prepared without preparing a Trial Balance.

- Expenditure had not been properly identified and classified.