

Customs Officers' Management and Compensation Fund - 2017

The audit of financial statements of the Customs Officers' Management and Compensation Fund of the Sri Lanka Customs for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended 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.

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. 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.

1.4 Basis for Qualified Opinion

My opinion is based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 2017 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 1- Presentation of Financial Statements**

- (i) In terms of the Standard, if assets of any entity consider as assets of that entity, those assets should be controlled by the entity itself and be useful for the achievement of objectives of the entity. However, the carrying amount of non-current assets had been reported as Rs.114,015,071 in the financial statements of the Fund as at 31 December of the year under review. Moreover, it was observed that those assets are used by the Sri Lanka Customs for operating activities thereof instead of utilizing for achieving objectives of the Fund. However, a sum of Rs.31,545,264 as depreciation of the year under review relating to those assets had been brought to account as expenditure of the Income Statement of the Fund.
- (ii) In terms of paragraph 21(e) of the Standard, when the entity makes publicity available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column should be indicated in the financial statements. However, budgeted information had not been disclosed in the financial statements of the Fund for the year under review.

(b) **Sri Lanka Public Sector Accounting Standard 3- Accounting Policies, Changes in Accounting Estimates and Errors**

Even though disclosures of changes in accounting policies should be made in terms of the Standard, the useful life of 03 years determined for televisions of the prior year had been increased in the year under review up to 05 years. As such, the percentage of depreciation had decreased from 33 1/3 per cent to 20 per cent. However, relevant disclosures had not been made in the financial statements in this connection.

(c) **Sri Lanka Public Sector Accounting Standard 07- Property, Plant and Equipment**

In terms of paragraph 13 of the Standard, computer software valued at Rs.349,000 had been brought to account under the Computer Account without being classified as intangible assets separately.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Out of stationeries valued at Rs.1,603,625 purchased in the year under review for the use of the Sri Lanka Customs and this Fund, the cost of stationeries required for the purposes of the Fund and the cost of the stock remained as at the end of the year, had not been brought to account by identifying separately, whilst the total cost thereof had been brought to account as an expenditure of the Fund.
- (b) According to the audit test checks, it was observed that the income of the Fund had been overstated by Rs.3,359,985 due to erroneous computation of income recoverable to the Management and Compensation Fund relating to 05 investigation files used for computation of custom rewards.
- (c) In terms of Section 153 of the Customs Ordinance, out of income from penalties and from sale of forfeited goods, 50 per cent and 20 per cent should be contributed to the Customs Officers' Reward Fund and Management and Compensation Fund respectively. Even though those contributions had been identified as income of the Customs Officers' Rewards Fund, in proportion to that, a sum of Rs.31,520,337 had not been identified and brought to account as income for the Management and Compensation Fund.
- (d) Depreciation for 04 categories and 02 categories of fixed assets had been over computed and under computed by Rs.254,706 and Rs.172,143 respectively in the financial statements of the year under review due to errors in computation of depreciation for fixed assets.

2.2.3 Unexplained Differences

The following observations are made.

- (a) Only an income of Rs.918,440,564 had been credited to the Custom Officers' Reward Fund instead of the sum of Rs.926,451,507 receivable to this Fund as 20 per cent in relation to the sum of Rs.2,316,128,767 credited to this Fund relating to the year under review as 50 per cent from income of penalties and the income from sale of forfeited goods, thus understating the income credited to this Fund by Rs.8,010,943. However, reasons for this difference had not been explained to Audit.

- (b) According to the statement of comprehensive income, differences of Rs.1,556,281, Rs.1,249,234 and Rs.410,125 were observed between the values of Items of Expenditure relating to trainings on foreign, local and postgraduate and the values of ledger accounts relating to them.
- (c) Differences of Rs.462,120 and Rs.2,335,549 were observed at the beginning and the end of the year under review between the balances of Treasury Books and Departmental Books under the accumulated balance of the Fund.

2.2.4 Lack of Evidence for Audit

Detailed explanations relating to the adjustment of depreciation amounting to Rs.14,541,567 made in the statement of Changes in Equity for the year under review had not been made available to Audit and a detailed schedule as well had not been made available to Audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented for the year under review, the surplus of the Fund had been Rs.728,808,304 as compared with the corresponding surplus of Rs.727,612,118 for the preceding year, thus indicating an improvement of Rs.1,196,186 in the financial result of the year under review as compared with the preceding year. The decrease in the total expenditure by Rs.19,376,952 and the total income of the Fund by Rs.18,180,766 in the year under review as compared with the preceding year had been the main reason for the above improvement.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Provisions for this Fund had been made without planning specific criteria and expenditure on intended future objectives accurately for enhancing the effectiveness of management of the Customs Officers and for the payment of compensation to officers, thus observing a tendency for continuous increase in the accumulated balance of the Fund annually. Moreover, it was observed that the accumulated balance of the Fund, which was Rs.5,420 million as at 31 December 2016, had increased by Rs.744 million or 14 per cent up to Rs.6,164 million by 31 December 2017. It was further observed that almost 81 per cent of the income of the year under review had accumulated in the Fund.

- (b) Even though the income of the Fund during the year under review had been Rs.918 million, the sum spent for main objectives of the Fund had been approximately Rs.134 million.

4.2 Management Activities

In the imposition of penalties on Customs offences, Government tax income deprived of has also been considered as a part of the penalty and rewards of officers had been determined based on that penalty. As such, an increase in the cash rewards paid to the officers as well as an increase in the amount allocated for this Fund, were observed.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) A sum totalling Rs.37,708,104 spent by the Treasury from the Deposit Account remained in the Treasury for the Management and Compensation Fund of the Customs Officers during the year under review had not been included even in another financial statement of that Fund or the Sri Lanka Customs. However, this expenditure is irrelevant to the expenditure on Sri Lanka Custom Officers' Management and Compensation Fund and it was further observed that these are expenditure to be incurred on provisions of the Sri Lanka Customs.
- (b) Moreover, expenditure on uniforms to be incurred under the Object No.01.01.1203 of the Sri Lanka Customs had been incurred under the Management and Compensation Fund. As such, the expenditure on uniforms which was Rs.312,825 in the preceding year, had increased by 2306 per cent up to Rs.7,527,280 in the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

The following observations are made.

Variances ranging between 51 per cent and 95 per cent were observed between the budgeted values and the actual values of 02 main Items of income of the Fund such as income from penalties and sales income from forfeited goods.

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.

Areas of Systems and Controls

Observations

- | Areas of Systems and Controls | Observations |
|---|---|
| (a) Foreign Training | Failure to follow a proper methodology for the selection of officers for foreign training. |
| (b) Collection of Income | Lack of a proper methodology for the comparison of income receivable and income received to the Fund. |
| (c) Accounting and Preparation of Reconciliation Statements | Obtaining information for financial statements not in compliance with proper double entry system and without maintaining ledger accounts. |
| (d) Non-preparation of Control Accounts | Failure in recording transactions through a Control Account in transactions relating to the Main Account of the Sri Lanka Customs. |