

Customs Officers' Reward Fund - 2017

The audit of financial statements of the Customs Officers Reward Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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.

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 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.

1.4 Basis for Qualified Opinion

My opinion is qualified 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 Reward 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.

Sri Lanka Public Sector Accounting Standard 01

- (a) Even though it had been reported that the financial statements of the Fund had been prepared in terms of Sri Lanka Public Sector Accounting Standards, a policy of accounting imposed penalties and confiscations on cash basis had been followed the Department, contrary to the Standard.
- (b) Even though the Cash Flow Statement in one component out of the components that should be furnished along with a set of financial statements in terms of Paragraph 21(c) of the Standard, the Cash Flow Statement had not been furnished in the set of financial statements of the Fund.
- (c) Even though the amounts included in the approved Budget in an entity should be stated in a separate column or as a separate financial statement by comparing with the actual amounts in terms of Paragraph 21(e) of the Standard, the budgeted information had not been revealed in financial statements due to an adjustment not being made between the components of the Budget and with the components of the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.285,050,661 receivable to the Customs Reward Fund as the sum of Rs.225,776,770 receivable to the Customs Rewards Fund as 50 per cent of the sum of Rs.451,553,540 which had been recovered by 31 December of the year under review of the Fines amounting to Rs.1,021,654,862 which had been imposed relating to 64 Case Files that the investigation activities had been completed as at the last date of the year under review and as 50 per cent of the Fines amounting to Rs.570,101,322 that is further recoverable, had not been brought to account.

- (b) Even though it had been contributed as 50 per cent of the Penalties and Confiscated Goods Income for the Customs Reward Fund and 20 per cent for the Management and Compensation Fund in terms of Section 153 of the Customs Ordinance and had been identified as income for the Management and Compensation Fund, a sum of Rs.25,974,067 that should be identified and should be brought to account proportionate to that, had not been brought to account.

2.2.3 Accounts Receivable and Payable

Even though balances should not remain in the Reward Fund and its sub- Funds after preparing specific collections of rewards for the payment of customs rewards and as such, had made payments by obtaining necessary provisions from the Treasury, the balance amounting to Rs.23, 300,456 which remained being saved without being paid accordingly in the year 1999 had been increased to a sum of Rs.816,109,695 by 31 December 2017 and, that amount had been stated as a balance receivable from the Treasury in the Financial Statements.

2.3 Transactions not supported by Adequate Authority

Even though a suitable methodology should be prepared for the distribution of rewards from the Rewards Fund by obtaining the approval of the Minister of Finance in terms of Section 153(2)(b) of the Customs Ordinance No.17 of 1969, evidence that the approval of the Minister of Finance being obtained for the Department Order No.PL 118 of 28 January 1988, had not been furnished to audit.

According to the information that could be obtained, a sum of approximately Rs.19 billion had been paid as rewards to Custom Officers and to Informants without confirming that the approval had been obtained in such a manner within the 19 preceding years from the year 1999 to the year 2017. An unusual condition is indicated by only a sum of Rs.7.07 billion being paid within the 5 preceding years, of the sum of approximately Rs.14 billion, paid accordingly. Moreover, the Payments of Rewards amounting to Rs.222 million paid to the Officers in the year 1999 had been increased to Rs.1,659 million or by 647 per cent by the year 2017.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had resulted in a surplus of Rs.25,457,489 as compared with the corresponding surplus of Rs.164,425,880 for the preceding year, thus indicating a deterioration of Rs.138,968,391 in the financial result in the year under review as compared with the preceding year. The increase of the expenditure of the Fund as well by 4 per cent despite the income of the Fund being increased by 2 per cent as compared with the preceding year had been the main reason for the above deterioration. However, the amount of money not spent, in the Sub- funds under the Rewards Fund, indicated by this surplus.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though a total sum of Rs.8,239,471,880 had been distributed among the Officers and the Informants from the year 2012 to the year 2017, a sum of Rs.7,454,724,025 or 90.47 per cent of that amount had been paid to the Officers.
- (b) Even though the amount paid to the Officers and to the Informants in the year 2012 had been only a sum of Rs.822 million, it had been increased to a sum of Rs.1,768, million or by 115 per cent by the year 2017. As such, the Rewards Scheme being affected towards either a considerable control of a decrease of the custom duty frauds was not observed in audit.

4.2 Management Activities

The following observations are made.

- (a) The decrease in the income receivable to the Government by imposing fines relating to custom errors inclusive of the tax income not considering the recovery of the minimal tax amount receivable to the Government on imports, by following the general practice in the Customs Investigations carried out relating to custom errors and by proposing to pay rewards, 50 per cent of the Penalty Charge imposed in such a manner to Officers, was observed.
- (b) The need of amending the Customs Ordinance and also the legal provisions of these funds properly and timely in a manner that suits with the complexity occurred in the imports and in the exports due to the Free Economic Policies prevailing today.
- (c) It was observed that most of the customs investigations proposed for the payment of rewards under the Fund had been investigations that had been carried out relating to custom errors such as understating the value of goods, erroneously stating the HE CODE of goods, bringing goods without making a declaration, bringing other goods instead of declared goods, importing goods that are prohibited to import to Sri Lanka and exporting goods that are prohibited to export and bringing and taking of undeclared money to and from the island. Sufficient action for the control of the adverse effect made to the Government Revenue by such errors that continuously remain despite Officers who receive fixed salaries are being deployed in the Sri Lanka Customs for the prevention of such custom errors, being taken up to date, was not observed.

4.3 Under- utilization of Funds

A sum of Rs.65,553,693 had been credited to the Fuel Fund, a Sub- fund of the Rewards Fund, in the year under review. Even though it had been stated as settling the fuel expenses necessary for customs investigations as the objectives of the establishment of that Fund, any expenditure whatsoever had not been incurred by the Fund in the year under review due to the fuel expenses incurred for the investigation activities being a burden of expenditure to the General Expenditure Head of the Department. However, its balance had been a sum of Rs.440,341,560 as at the end of the year under review due to continuously collecting money to the Fund not considering fair requirements.

5. Accountability and Good Governance

5.1 Budgetary Control

A variance ranging from 35 per cent to 409 per cent between the amounts relating to seven Budgeted Income, Expenditure and Liabilities and the actual amounts relating thereto was observed, 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 Systems and Controls	Observations
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(a) Accounting	Not taking action to maintain a proper Ledger Accounts System and not preparing Accounts on accrued basis.
(b) Calculation of Rewards	Not following a practical calculation method in a manner that secures the Government Tax Revenue in calculating rewards, that maintains a control in custom duty frauds and that assures a maximum disadvantage to the parties who engage in custom duty frauds.
(c) Payment of Rewards	Not documenting collections of rewards in the instance where rewards are being received to the Accounts Branch and not making payments as per the sequence order.