

Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2018

Qualified Opinion

The audit of the financial statements of the Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of consolidated income and statement of changes in equity and cash flow statement for the year then ended and notes to the Financial statements and a summary of significant accounting policies, 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 to be read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.1 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.2 Responsibilities of Management and Those Charged with Governance Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Fund's financial reporting process.

As per Sub Section 16 (1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.3 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is great than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.4 Financial Statements

1.4.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.4.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
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As per the Sri Lanka Public Sector Accounting Standards No. 01, accounts are prepared on accrual basis and the value that should be credited to the Consolidated Fund had been understated by Rs. 5,808,889 since value of 10 per cent that should be credited to the Consolidated Fund from the Overtime Fund had been shown in the Income and Expenditure Statement on cash basis.	Ten (10) per cent of the total over time receipts pertaining to a certain year is monthly credited to the Consolidated Fund of the Government on cash basis and it is credited according to the Chapter IX of the Establishments Code. Accordingly, the total amount of money credited from the Consolidated Fund of the Government in relation to a certain year is shown in the Income Statement. I do observe that when the amount of 10 per cent that should be	In the preparation of accounts as per the Sri Lanka Public Sector Accounting Standards, only the accrual basis should be used.

annually credited to the Consolidated Fund is calculated, it is more appropriate to do so in accordance with the amount of money that has already been realized.

1.4.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
<p>The percentage value of allocation for doubtful debt up to the year 2017 was 15 per cent and even though the percentage of the current year has reduced up to 5 per cent, a common rate has been prescribed without considering the existence and lifetime of the debtors. If provision for doubtful debt was made on the basis adopted in the previous years, the balance of the account should be Rs. 38,170,534 at the end of the year under review. However, the balance had reduced up to Rs. 12,723,511 due to the change in the accounting policy. Further, expenditure had not been arisen under this Object in relation to the year under review due to the change in the accounting policy and an amount of Rs. 16,672,894 had been added to the surplus of the Income and Expenditure as an extra provision for doubtful debts.</p>	<p>The debtors related to the period of 2014 to 2018 have been included within the balance of debtors as at 31 December 2018. An amount of Rs. 142,366,500 or 96 per cent out of Rs.145,595,100 belonged to the period of 2014-2017 had to be recovered from the Sri Lankan Airlines. The bills related to overtime that were in arrears related to this balance of debtors have been forwarded to the relevant Airlines Company and the Company had agreed to pay the relevant overtime subsequent to checking the relevant overtime bills. (Arrears in overtime payment to be settled in relation to the years 2014 and 2016 had already been paid completely.) Likely, an amount of Rs. 108,875,128 or about 43 per cent out of Rs. 254,470,228, which is the total debtors as at 31 December 2018 is related to the year 2018. The amount would be settled within the Financial Year, 2019. In the circumstances, the percentage of provisions made for doubtful debt had reduced from 15 per cent to 5 per cent as the risk for recovering the loan from the value represented within the balance of debtors had been reduced. Thereby, the percentage of doubtful loan which was 15 per cent in the year 2017 as per the note to accounting policies mentioned in the page 21 of the Final Financial Statement had been reduced to 5 per cent during the year 2018.</p>	<p>Provision for doubtful debts has to be made after deciding rates by considering the existence and the lifetime of the debtors.</p>

1.5 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Bonds amounting to Rs. 2,750,000 and investment income related to that had not been shown in the accounts of the current year.	<p>A deposit of Rs. 100,000 is obtained by the Sri Lanka Customs from the local agent of the Ship or from the local agent of the Company to which the ship belongs in relation to the naval activities. Deposits so obtained are recorded in accounts under the Deposit Account bearing No. 18/128 of the Department of State Accounts of the General Treasury. Likely, money obtained so is credited to the Account No. 00110129026664 of the Peoples' Bank maintained in favour of Director General of Customs under the Network of Bank Accounts of the Department of Treasury Operations on the same day. Accordingly, the money collected under this Account will provide a facility to minimize the interest that is paid for the bank overdraft of the General Treasury.</p> <p>However, an interest should be earned for the deposit of Rs. 100,000 mentioned here as per the aforementioned Gazette notification and the portion thereof related to the Government should be retained and the remaining amount should be repaid to the Depositor. If functions are performed accordingly, the ability of the General Treasury to minimize the interest for bank overdraft as described in the above paragraph would be lost. Likewise, the attention has been focussed on the suitability of revising the last two lines in the description mentioned under Sub No. 6 of the Paragraph 1 of the Part 1 of the relevant gazette notification as this programme is economically disadvantageous to the Government since the interest for bank Overdraft is always more than the interest for deposits.</p>	Value of Bond and the interest related to it should be systematically included in the Account.

1.5.1 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Comment of management	Recommendation
	Rs.			
(a) General Deposits	349,140	Deposit Ledger	The Audit observation is accurate. A sum of Rs.349,140 could not be identified for a longer period of time in the reason of that overtime fund has been shown as a unsolution liability in the Balance Sheet. Therefore, a letter had been sent to the Department of State Accounts on 06 May 2019 in this respect and accordingly, it has been noted down to take future action pertaining to this matter.	Final decision should be taken expeditiously after discussing with the Department of State Accounts.
(b) Debtors	254,470,228	Confirmations of Balances.	It has been informed by the letter No. OTC/15 dated 28 January 2019 that had been sent to all the debtors, who had replied, with a copy to you, to send confirmations of balances. However, replies had been sent only by several institutions and a copy of the letter is sent herewith for your information.	Balances should be confirmed and direct responses should be made to the Auditor General.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comment of Management	Recommendation
(a) An amount of Rs. 186 million which is 73 per cent out of the Debtors' Balance which was a total of Rs. 254 million to be recovered from 81 institutions as	A sum of Rs. 29.9 million out of the amount of Rs. 186 million which was the arrears in overtime payment to be charged by 31 December 2018 had been charged	The relevant balance should be recovered expeditiously as this Company is a Life Member.

at 31 December 2018 had to be recovered to the Fund from the Sri Lankan Airlines and a systematic methodology had not been adopted to recover this amount of arrears in loan.

within the first quarter of the year 2019 and the outstanding amounts remaining are the balances to be recovered from the year 2015. All the overtime bills in this regard had been sent to the relevant Airlines Company and the Company had agreed to pay those overtime bills as soon as possible.

(b) The amount earned through the external investments of the amount of Rs. 253,314 deposited by 75 institutions in the Sri Lanka Customs during the period from the year 1967 to year 2007 was Rs. 12.5 million. Accordingly, the relevant deposits were being brought forward in liability accounts and investment accounts without conducting any investigation on the going concern of these institutions where the overall investigation was Rs. 12.8 million as well as the provision of services at present.

Investment income related to the investment value of Rs. 12.5 million had been debited to the Investment Account and credited to the special deposits account.

An investigation should be conducted on the provision of services at present and going concern of the institutions and adopting a proper accounting methodology or making necessary arrangements to do other functions.

1.5.4 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Non-compliance Laws, Rules Regulations etc.	Comments of Management	Recommendation	
<p>(a) Section 103 of the Customs Ordinance / Gazette (Extraordinary) bearing No. 1520/17 of 26 October 2007 / Internal Circular bearing No. 2018 (F) of 31 December 2002.</p>	<ul style="list-style-type: none"> • Even though Assistant Preventive Officer (custom duties) should daily submit data on container operations to the Accountant (Overtime), had not been submitted fulfilled accordingly. • Even though bills should be issued in an updated manner to prevent arrears being created in overtime 	<ul style="list-style-type: none"> • Action will be taken in the future to daily submit overtime reports that are collected daily by the Assistant Preventive Officer (Customs Duties) to the Accountant (Overtime) and to daily submit the 06 formats and the other shipping documents including IMO FAL to the Port Control Unit. 	<p>Great attention should be focussed on Laws and Circulars.</p>

receipts, action had not been taken accordingly.

- The Chief Preventive Officer had not submitted a report of confirmation to the Accountant after examining the information of Ship Agents against the data of the Sri Lanka Ports Authority. Overtime to be recovered from Shipping Agencies has been stated in the Overtime ledger under the relevant application number. Action would be taken to annually compute the amounts to be recovered so and such amounts are recovered prior to the renewal of their bond in the following year. Accordingly, amounts to be recovered from the Shipping Agencies as at 31 December 2018 have been stated as loan balances to be recovered under debtors in Financial Statements. Thirty (30) per cent out of that amount has already been recovered by now. Great attention should be focussed on Laws and Circulars.
- Even though the accuracy of information on container operations is examined by the Port Control Unit of the Sri Lanka Customs, there is no legal assignment of duties or a methodology for obtaining information for that purpose. • As per the Departmental Order bearing No. DOPL 218 F of 01 April 2019, the responsibility of maintaining reports on the arrival of ships to the Port, computing the overtime due to be paid by examining the overtime reports and reports submitted by Port Container Yards and submission of such information to the Financial Division of the Sri Lanka Customs. Action should be taken to regulate the situation by focussing a great attention on the Internal Circulars.
- Even though the deposits amounting to Rs. 100,000 obtained from Shipping Agencies should be invested in an appropriate • The possibility of making necessary revisions to the relevant Gazette Notification is being searched. Great attention should be focussed on the Internal Circulars.

investment method and the portion of the interest that should be recovered by the Government should be identified and the balance should be paid to the Depositor, action had not been taken accordingly.

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| <p>(b) Public Administration Circular No. 2017/3 of 19 April 2017.</p> | <p>Even though all the Public servants should use the Finger Print Machine for marking their arrival and departure, any of the Public Servants employed in the Sri Lanka Customs had not satisfied the requirement and the amount paid as overtime for the year under review had been Rs. 651.8 million.</p> | <p>Even though discussions were held regarding the audit observation at the Committee on Public Accounts of the Parliament, a final decision had not been reached.</p> | <p>The Staff of the Sri Lanka Customs should function in accordance with the general Circulars that are applicable to all the Officers in the Public Sector.</p> |
| <p>(c) Public Finance Circular No. PF/423 of 22 December 2016</p> | <p>Even though an amount of Rs. 13 million as investments within the overtime fund and an amount of Rs. 2,179 million as Treasury Fund were accumulated from a longer period of time, surplus amounts had not been credited to the Consolidated Fund.</p> | <p>In terms of the Gazette No. 1520/17 of 26 October 2007, all the amounts recovered as fees or charges for services rendered by the Officers of the Department of Customs extraneous to their office hours are credited to the Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund Account bearing Deposit Account No. 6000-0-0-6-32 and the administrative Authority of this Account is the Director General of Customs. Ten (10) per cent of the receipts annually collected as overtime is credited to the Consolidated Fund of the Government and the balance of 90 per cent is</p> | <p>In terms of the relevant Circular, appropriate measures should be taken after discussing with the General Treasury pertaining to crediting the excess amounts that are accumulated.</p> |

paid to the Custom Officers. Further, as per Chapter IX of the Establishments Code, it can be allowed to provide the remaining 90 per cent for the use of the officers after crediting 10 per cent of the charges collected as overtime to the Consolidated Fund. This will increase the efficiency of the Department as the employees are committed to do much work owing to the high level of satisfaction among employees by working in this manner. Likely, there is no need to function in terms of Public Finance Circular No. PF/423 dated 22 December 2016 as the money available in this fund is the money remained after crediting 10 per cent to the Consolidated Fund.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 334,904,166 and the corresponding surplus in the preceding year amounted to Rs. 320,188,374. Therefore, an improvement amounting to Rs. 14,715,792 of the financial result was observed.

2.2 Trend Analysis of major Income and Expenditure items

In terms of Gazette notification extraordinary No. 1520/17 of 26 October 2007 issued as per Section 103 of the Customs Ordinance, the fees and charges recovered from the relevant parties for duties conducted by Officers in times extraneous to the general office hours and for duties performed by officers in places extraneous to the general work places and charges recovered from the Board of Investment for the provision of technical services to the Board of Investment of Sri Lanka should be credited to the Fund. Payments made to officers for the performance of additional duties are considered as a burden of expenditure to this Fund.

Accordingly, amounts of Rs. 1,071,405,674, Rs. 335,848,526 and Rs. 13,728,000 had been collected for overtime, cargo examination and information technological activities respectively during the year under review as mentioned above and the officers engaged in those activities had been paid amounts of Rs. 651,843,884 as 61 per cent from the overtime income, Rs. 167,924,263 as 50 per cent from the cargo examination and Rs. 10,982,400 as 80 per cent from information technological activities.

2.3 Ratio Analysis

Current asset ratio in the previous year was 5.15 and current asset ratio in the year under review was 6.08. Accordingly, a growth of 0.93 could be observed in the current asset ratio in the year under review as compared with the preceding year and it could be observed that the major reason was the growth in the debtors and growth in the balances that should be received from the General Treasury.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>(a) Even though employing Officers continuously for 24 hours daily is a highly unusual situation, it could be observed that there were occasions where overtime had been paid to certain officers of the Department of Customs by reporting that they had been employed in the service for 24 hours per day continuously during the year and they had been paid overtime. It could be observed that overtime had been paid to officers in certain weekends even without obtaining the key of certain branches and in the audit test checks carried out in this regard, it could be observed that a sum of Rs. 849,638 had been paid as overtime for 628 such days.</p>	<p>Action had been taken in this regard in terms of provisions of Section 103, departmental orders issued up to now and recommendations of the Overtime Committee. However, the attention of the Department has been focused on the formulation of a systematic methodology on the payment of overtime.</p>	<p>Supervising Officers should greatly supervise the payment of overtime.</p>

Even though it had been continuously shown through the audit reports that the payment of the overtime fund had not been made under a systematic control, any action had not yet been taken to formalize the situation. It could be further observed that a sum of Rs. 8,333 had been paid as overtime for 18 days for three officers who had gone abroad for following foreign training courses.

Action had been taken in this regard in terms of provisions of Section 103, departmental orders issued up to now and recommendations of the Overtime Committee. However, the attention of the Department has been focused on the formulation of a systematic methodology on the payment of overtime.

A formal inquiry should be carried out in terms of rules and regulations currently in force in this regard.

Non-availability of a systematic methodology for obtaining due approvals for the payment of overtime and employing officers in overtime duties, maintenance of documents, supervision and payments had not been carried out systematically.

The Department of Customs has paid its special attention on the formulation of a new methodology of paying overtime after reviewing the payment of overtime within the Department of Customs.

Supervising Officers should greatly supervise the payment of overtime.

Explanations had been called from Directors who had sent relevant overtime registers with signatures of the officers to substantiate that the officers who had gone abroad for foreign training programmes (official) as stated in the audit query had employed in overtime duties during the periods of their stay in foreign countries and action had been taken to immediately recover the overtime allowances paid for the periods of staying abroad for those officers who had participated in foreign training programmes.

(b) Not using finger print machines for arrival and departure of employees.

The reply in 2.1 (b) is applicable.

Action should be taken to introduce finger print machines.

(c) Not supervising the rectification of deficiencies stated in accepted audit queries.

Deficiencies pointed out by the audit queries received so far has been rectified largely and noted

Should carry out a proper supervision.

down to make further improvements in this regard in the future.

- (d) Action had not been taken to perform a routine supervision for the overtime registers by a supervising officer and to settle. The reply in (a) above is applicable. Should carry out a proper supervision.
- (e) The attention had not been focussed on the immediate Customs Circulars (DOPL) pertaining to overtime. Action has been taken in terms of Departmental Circulars issued so far on the payment of overtime. Great attention should be focussed on the internal circulars.