

## **Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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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.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 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.

#### **1.4 Auditor's Responsibility for the Audit of the Financial Statements**

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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 higher 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 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 fund'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 fund 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.

## **1.5 Audit Observations on the preparation of Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements.**

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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. Observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### **1.5.2 Accounting Policies**

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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A doubtful debt provision of Rs.4,875,963 had been provided at a common rate of 5 per cent for doubtful debts without considering the existence and lifetime of the debtors.	A common rate of 5 per cent is being used for doubtful debt from 2018.	A rate should be prescribed for doubtful debts by considering the recoveries from the debtors.

### 1.5.3 Accounts Receivable

Audit Observation	Management Comment	Recommendation
<p>During the period from 1967 to 2007, with interest income of Rs. 13,619,369 earned by investing in external investments of Rs. 253,314 deposited in Sri Lanka Customs by 75 institutions, the total investment was Rs. 13,872,683. The relevant balance was being carried forward in the accounts under liabilities and investments without conducting any investigation into the existence of these institutions as well as the present position of rendering of services.</p>	<p>Current addresses of many of these agencies were not having and it has been observed that some institutions do not carry out operations. Therefore, the National Savings Bank had been asked about the possibility of crediting the deposits in the name of those institutions to government revenue. It was noted to get the next steps based on that answer.</p>	<p>Investigate the current service delivery and the existence of the institutions and make proper accounts or take any other necessary action.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Administration Circular No. 3/2017 dated 19 April 2017.	Although all public servants must use a fingerprint machine to record their arrival and departure, while none of the government officials serving in the Sri Lanka Customs had fulfilled that requirement, an overtime payment of Rs. 850,149,598 had been made for the year under review.	According to the inquiries made by the Public Accounts Committee of the Parliament in this regard, a subcommittee was appointed to formulate the necessary proposals and procedures and the report of that subcommittee had already been submitted.	That the Customs staff should also act in accordance with the General Circulars applicable to all public sector officers.
(b) Paragraph (2) (d) of the Financial Regulations 876 included by paragraph 15.1 of	Although a sum of Rs. 2,133,975,331 has been accumulating in the overtime fund as a treasury fund for a long	Although the cumulative amount of Rs.2,133,975,331 stated as a nominal value in the account	That the accumulated surplus money should be credited to the Consolidated

the Public time, the surplus had not had been shown as a Fund by discussing Finance Circular been credited to the surplus, this balance with the Treasury No. 1/2020 dated Consolidated Fund is not physically according to the 28 August 2020 during the year under available in the relevant circular. review after negotiations departmental account with the Treasury in and it had already accordance with the been transferred to provisions. the bank account of the Deputy Secretary to the Treasury according to the prevailing system.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a deficit of Rs. 141,774,897 and the corresponding deficit in the preceding year amounted to Rs. 55,141,127. Therefore a deterioration amounting to Rs. 86,633,770 of the financial result was observed. This deterioration was mainly due to the decline in customs overtime revenue during the year under review.

### 2.2 Trend Analysis of major Income and Expenditure items

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In terms of Gazette notification 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. Also the payments made to officers for the performance of additional duties are considered as a burden of expenditure to this Fund. Accordingly, amounts of Rs. 788,633,867 Rs.304,718,986 and Rs. 14,976,000 had been collected for overtime, cargo examination, information technological activities and various receipts respectively during the year under review as mentioned above. The officers engaged in those activities had been paid amounts of Rs. 850,149,597 as 107.8 per cent from the overtime income, Rs. 152,359,493 as 50 per cent from the cargo examination income and Rs. 11,980,800 as 80 per cent from information technological income. Following are the findings of the audit during the above payment process.

Audit Observation	Management Comment	Recommendation
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(a) Although past audit reports had consistently shown that overtime fund payments are not subject to formal regulation, so far no action had been taken to rectify the	Receipts and payments of the Overtime Fund are made in accordance with the Gazette Notification No. 1520/17 dated 07 October 2007 and	Review and streamline the current overtime payment process.

situation.

the Department Orders DOPL 218 F. Overtime payments will be reviewed from time to time by an overtime committee appointed under the supervision of the Director General of Customs.

- (b) A sum of Rs.61,515,730 had been paid to the officers as overtime expenses in excess of the overtime income collected during the year.
- Agrees with observations. The overtime rates charged to the Overtime Fund had been determined as per Gazette Notification No. 1520/17 dated 07 October 2007. Although many years had passed, these rates had not yet been revised. However, the overtime rates paid had been revised on two occasions to take into account the salary revisions of the officers and subsequent increase in the existing cost of living. For that reason, overtime payments had increased.
- As per the provisions, the implementation of this overtime scheme will be funded by external agencies providing services by the Customs. Management should take steps not to overpay the funds raised from those external entities.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although a sum of Rs. 788,633,867 had been collected as overtime income for the year under review, due to the expenditure incurred from that fund being Rs.848,752,697, the overtime fund deficit during the year under review was Rs.141,774,896. Accumulated balances in the fund had been utilized during the last year to cover that deficit. This deficit was due to a 50 per cent increase in overtime pay per hour from 1 October 2018 and although a	The overtime rates charged to the Overtime Fund had been determined as per Gazette Notification No. 1520/17 dated 07 October 2007. Although many years had passed, these rates had not yet been revised. However, overtime rates had been revised on two occasions by considering the subsequent rising costs of living and revisions in the salaries of officers. For that reason, overtime payments had	The overtime payment process needs to be streamlined with the management paying close attention to overpayments from the overtime fund.

decision has been taken by an internal committee only to pay this overtime, specific approval had not been obtained for this. Also, the deficit of the fund had increased by Rs.86,633,770 over the previous year.

increased. However, overtime is still being paid at a rate lower than the base rate approved by the Senior Assistant Secretary of the Ministry of Finance letter No. F1/Customs/47/3 dated 09.02.2004.

#### **4. Accountability and Good Governance**

##### **4.1 Submission of Financial Statements**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Although the accumulated fund balance and non-current liability balance for the year 2019 were stated as Rs.2,133,975,332 and Rs.13,872,683 respectively in the consolidated financial statements of the customs overtime, cargo examination fees and customs information and communication technology fund, it was observed that the values were Rs.2,275,913,245 and Rs. 13,330,735.</p>	<p>This is a printing mistake and the accumulated fund balance and non-current liability balance for the year 2019 in the statement of consolidated financial position are Rs.2,275,913,245 and Rs.13,330,735 respectively.</p>	<p>Action should be taken to prepare the accounts accurately.</p>