

Custom Officers' Management and Compensation Fund – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Custom Officers' Management and Compensation Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, 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 2021, 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

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

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.

1.4 Auditor's Responsibility 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 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, 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

1.5.1 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.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Management Comment	Recommendation
According to Sri Lanka Public Sector Accounting Standard No. 01, the assets of an entity and those assets should be useful for accomplishing the objectives of the entity. Although the net value of non-current assets as at 31 December of the year under review was reported as Rs. 44,203,144, it was observed that the assets are not being used to fulfill the objectives of the fund and used by the Sri Lanka Customs Department for its operational activities and the amount of depreciation in the reviewed year was Rs. 5,305,911 had been accounted as expenditure of the fund in relation to these assets.	The figures given in the observation are correct.	Since this fund is a separate entity, only the assets used for the benefit of the fund should be accounted under that fund.

1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Although the policy of depreciation of property, plant and equipment as per accounting notes was mentioned as straight line depreciation method, the depreciation was calculated based	Observation is correct. The policy of depreciation of property, plant and equipment was prepared based on the declining balance method as in the previous years and in note	Annual depreciation should be calculated and accounted with following the correct depreciation method.

on declining balance method in the year under review and previous year and there was no disclosure of the policy change.

2.8, it is omitted as the straight line method and I report that it should be correct as the declining balance method.

- (b) The net value was nil, but the cost used for operational activities of Rs. 22,258,264 had been recorded in the financial statements without revaluation of property, plant and equipment.
- Televisions and accessories purchased before the year 2015 are over 7 years old. Since the computer software was purchased in the year 2016 and earlier, the devices are more than 5 years old and the warranty period has also expired. Therefore, I report that a revaluation of these assets is impractical.
- If there is a situation where it can be further used, then an appropriate method should be followed and accounted.

1.5.4 Unreconciled Control Accounts or Records

Audit Observation -----	Management Comment -----	Recommendation -----
It was observed that a difference of Rs. 2,122,369 in the opening balance between the departmental books and the treasury books of the Management and compensation fund.	This is a change from before the year 2018. At present, efforts are being made to identify the difference and it will be corrected in future.	If there was any difference between the data while preparing the financial statements, the financial statements should be presented comparing those differences.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a excess of Rs. 855,371,840 and the corresponding excess in the preceding year amounted to Rs. 445,228,992. Therefore an improvement amounting to Rs.410,142,848 of the financial result was observed. The main reason for the deterioration was the increasing of sales revenue and penalty revenue of Rs.152,542,726 and Rs. 250,605,474 respectively and decreasing of various expenses by Rs.22,422,429.

3. Accountability and Good Governance

3.1 Annual Performance

An amount equal to 20 percent of the proceeds from the sale of fines and confiscated goods for various customs offences is credited to the fund and according to Section 153(b) 1 of the Customs Ordinance; the functions of the fund were as follows.

- Expenditure to facilitate the Director General of Customs to improve the effectiveness of customs management.
- Compensation to any customs officers permanently or totally or partially disabled or temporarily incapacitated.
- Compensation to the legal heirs of a customs officer on death.

The following observations are made in order to achieve the above objectives.

Audit Observation -----	Management Comment -----	Recommendation -----
(a) Due to allocating money to this fund without proper planning of future expected purposeful expenditure and specific criteria for developing management effectiveness of customs officials and compensation of officials, it was observed that the accumulated balance of the fund has a continuously growth trend annually. It was observed that the accumulated balance of the fund amounting to Rs. 7,775 million as at 31 December 2020 was increase by Rs. 836 million up to Rs. 8,611 million or 11 percent as at 31 December 2021. The following reasons were also basically responsible for the continued growth of the fund's accumulated balance.	According to the provisions of the Customs Ordinance, 20 percent of the fines imposed by sales and penalties in customs investigations, after deducting the relevant expenses, will be credited to this fund. Accordingly, there is a cumulative balance in the scheme and the current balances are added to it. Accordingly, the fund value increases annually. The account balance as at 31.12.2021 is Rs. 8,566 million. It is observed that the use of computer and other technological advancements and doing frauds and irregularities in as groups in a much planned manner has grown all over the world. Accordingly, it is difficult to expect a decrease in customs tax frauds in the situation where the trend of earning money fraudulently is increasing in our country as well. Agree with the observations.	The Customs Ordinance is now about 153 years old and the Act was prepared based on the import and export situation during that time. But, it should be revised as suit for the current dynamic characteristics.
(i) This fund had continued to grow due to that the officials had to pay rewards for various customs offences arising out of inadequate measures to control customs duty evasions and an amount equal to 20 percent was credited to this fund. Money was credited to this fund from 2740 customs investigations that had received money into the fund		A system should be introduced that suits the current situation to develop the effectiveness of the officers.

during the last 10 years and that value is about Rs. 6,922 million.

- (ii) There was a loss of government revenue that should be credited to the consolidated fund and an increase of the amount of reward money paid to the customs officers due to that tax income lost to the government in imposing penalties for customs offences is also considered as part of the penalty and the rewards of officials are determined on the basis of the penalty.
- A customs offence is liable to a penalty because the officers are diligent in detecting the offence. If no mistake is detected, the entire amount of revenue related to that incident will sometimes become a loss to the government. But, as the government get 30 percent of the money collected on being able to catch the customs offence based on the skill of the officials, it gets some quantitative contribution to the government revenue and the motivation of officials to catch customs offences can also be maintained at a high level.
- It appears that it is the duty of customs officers to detect customs offences at the earliest. The customs officers should conduct an investigation again due to that the customs offence was not detected at the first time and take necessary measures regarding that 70 percent of the proceeds from the sale of confiscated goods and fines are not taking to the consolidated fund.
- (iii) The legal provisions of the Customs Ordinance and related funds had not been formally and timely amended according to suit the complexity of imports and exports due to the current economic policies had basically affected these growths.
- A report was not given in detail and it was stated that there is further discussion.
- The Customs Ordinance is now about 153 years old and although this Act was enacted based on the import and export conditions during that time; it should be amended to suit the current import and export situation.
- (b) Although the income of the fund was Rs. 897 million during the year under review, the amount spent for the basic purposes of the fund is approximately Rs. 41 million.
- Agree with the audit observation. This situation is occurred due to the basic objectives of this fund, which are to bear all the expenses including local and foreign training, were not carried out with referring officials as planned due to the periodic shutdown of the country due to the Corona epidemic situation in the country. I further report that
- The Act should be amended and a system suitable for the current situation should be introduced to pay compensation to the customs officers and to develop the welfare of the employees.

this situation is a special situation that cannot be compared with previous years.

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| <p>(c) Although one of the basic objectives of this fund is to compensate the customs officials for the calamities in their duties, no such compensation payment was reported during the period of last 08 years under the inspection. Accordingly, in order to fulfill those objectives, it was observed during the audit that an unusual amount of money is being collected for this fund.</p> | <p>No compensation claims were received for such calamities in the above 8 years. The existence of a large sum of money in such a fund ensures good security for their families like an insurance fund for those officers to devote themselves to their duties despite the risk of their lives since there have been threats to the lives of the honest officers who work hard to catch the customs offences. It encourages officers to devote themselves to duty regardless of risk to their lives in the performance of their duties. Also, I further report that the allocation of money to this fund will be done according to the provisions of the Customs Ordinance.</p> | <p>The Act should be amended and a system should be introduced for the compensation of the customs officials that is suitable for the current situation.</p> |
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3.2 Budget Control

Audit Observation

Due to observation of variations ranging from 41 percent to 100 percent in 7 expenditure subjects when comparing the estimated expenditure of the fund with the actual expenditure in the year under review, it was not observed that the budget was used as an effective management control matter.

Management Comment

The figures given in the report are correct. Bearing all expenses including local and foreign training, which is the basic objective of this fund, due to that the officials were not directed to these activities as planned and this situation has arisen due to the foreign representatives were not present because, the periodical closure of the country in view of the epidemic situation in the country. I further report that this situation is a special situation that cannot be compared with previous years.

Recommendation

In preparing the budget, the needs should be properly identified and the necessary provisions should be made.