

## **Customs Overtime, Cargo Examination fees and Customs Information and Communication Technology Fund - 2021**

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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 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**

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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 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**

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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, 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.

### **1.5.2 Lack of written Evidences for audit**

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) There was an outstanding debt balance of Rs. 71,748,242 as at 31 December 2021 and a balance of Rs. 39,511,442 out form that was to be charged from shipping companies and 84 bonded warehouses and the balance confirmation letters were not obtained from the relevant institutions for the balance conformation.	Debt balances are taken based on estimates provided by shipping companies/ shipping agencies prior to carrying out their work and these values will often change during the payment. Due to this reason, balance confirmation letters were not taken from the relevant institutions and I would like to inform you that, it is noted to get such balance confirmation in future.	The department should be taken action to ascertain the outstanding balances.
(b) During the preparation of overtime income estimates for	The number of officers serving the overtime income	Arrangements should be made to enter into

the overtime income collection centers, the agreements that included the agreements made with the relevant institutions regarding the estimated overtime hours and the number of officers to be assigned were not submitted to the audit. collection points are uncertain and the number of officers employed and the number of hours employed will be determined based on the service requirement. The rates to be paid are according to the Gazette No. 1520/17 dated 26 October 2007. formal agreements with the relevant institutions.

### 1.5.3 Other Observations

Audit Observation -----	Management Comment -----	Recommendation -----
(a) The whole investment was Rs. 14,434,542 during the period from the year 1967 to 2007 with including the interest income of Rs. 14,181,228 from earnings through the external investments of the Rs. 253,314 deposited by 75 institutions in Sri Lanka Customs. The relevant balance was brought forward in the accounts under liabilities and investments without investigating the existence of these institutions as well as the provision of services at present.	Out of 75 relevant institutions, 11 institutions have been informed about the release of the deposited money as mentioned in the query and 4 saving bank pass books have been released to 3 institutions that have submitted. Regarding the rest of the institutions, deposit releasing activities has already started.	The present service providing and the existence of institutions should be investigated, proper accounting or other necessary activities should be done.
(b) The debtor balance was overstated by Rs. 8,230,180 in the previous year and although it was adjusted to the accumulated fund balance in the change of equity register of the current year, no formal proof or source document was submitted to indicate such overstatement and no balance adjustment was done through the journal entry.	The reasons for the overestimation of the previous year debtor balance of Rs. 8,230,180 are given below. <ul style="list-style-type: none"> <li>• Receivable from the same entity has been recorded in twice.</li> <li>• Mistakes in the cheque payments made by the institutions to this office and that the amount has been recorded as receivables.</li> </ul> Noted to account these entries through the journal entries in future.	Formal evidence should be submitted to confirm the balances and steps should be taken to account through the proper journal entries.

## 1.6 Cash Receivables

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The debtor balance of the department to be charged as at 31 December 2021 was Rs. 71,748,242 and out of which, a balance of Rs. 15,478,888 had remained over the year. Out of which, a balance of Rs. 4,732,663 belonging to 25 institutions remained unchanged from the year 2018 to 2020 and although the balance which was not included in the final accounts of the year 2020, there was a balance of Rs. 2,302,179 in the final accounts of the year 2021 stated as receivable in the year 2018 and 2019.</p>	<p>Agree with the observation and it was a mistake occurred in the preparation of accounts and the relevant officials were informed to take action to prevent such situations in future.</p>	<p>Arrangements should be made to prepare the accounts correctly.</p>

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

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<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) Public Administration Circular No. 3/2017 dated 17 April 2017.</p>	<p>Although all government employees should use fingerprint machine to record their arrival and departure, an amount of Rs. 948,323,405 had been paid as overtime for the year under review, when none of the government officials employed in the Sri Lanka Customs had not fulfilled that requirement.</p>	<p>According to the nature of duties of the Customs Department, the Secretary of the Ministry of Public Services, Provincial Councils and Local Government has been requested to give instructions by letter dated 25.01.2022 and after receiving the instructions, it is expected to act accordingly.</p> <p>A committee representing all officers of the Customs has been appointed on 14.02.2022 to make recommendations regarding the payment of overtime in the</p>	<p>The staff of the custom should also work according to the general circulars related to all officers of the public sector.</p>

Department of Customs and after receiving the recommendations of the committee, a formal system will be worked out regarding the payment of overtime.

- (b) Paragraph 876(2) Although an amount of The cumulative amount According to the  
(c) of the Rs. 1,948,778,712 has been of Rs. 1,948,778,712 relevant circular, the  
Financial accumulating as treasury fund nominally existing in the accumulated excess  
Regulations in the overtime fund for a long account as at 31.12.2021 money should be  
inserted by time, the excess amount was was indicated as excess discussed with the  
paragraph 15.1 of not credited to the amount, but this balance treasury and credited  
Public Finance consolidated fund during the does not physically exist to the consolidated  
Circular No/ year under review as per the the department account fund.  
1/2020 dated 28 discussions with the treasury and already remitted to  
August 2020. as per the provisions. the bank account  
(Consolidated fund) of  
the Deputy Secretary of  
the treasury.

## 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. 176,966,439 and the corresponding deficit in the preceding year amounted to Rs. 141,774,897. Therefore a deterioration amounting to Rs. 35,191,542 of the financial result was observed. The main reason for the deterioration was an increasing the expenditure of overtime payments.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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Audit Observation	Management Comment	Recommendation
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(a) Rs. 854,372,907 had been collected as overtime income for the year. The net expenditure of the fund after adjusting the contribution to the consolidated fund and the provisions for debtors were Rs. 945,599,889. Accordingly, the deficit in the overtime fund was Rs. 176,966,439 in the year under review and the	According to the letter dated 09.02.2004 bearing Mu1/Customs/47/3 of the Secretary to the Ministry of Finance, the calculation of overtime allowances of the Custom officers of the Sri Lanka Customs Department has been approved to be paid in	The overtime payment process should be formalized by the management paying close attention to the payment in excess of the respective fund.

accumulated balances in the fund in the previous year were used to cover the deficit. This deficit has caused the decision of increasing the hourly overtime pay by 50 percent effective from the date of 01 October 2018. An internal committee of the department had made an informal decision to increase the overtime rate and include new parties who have to pay overtime, but no specific valid approval had been received for this.

accordance with sub-section 6.1 of Chapter VIII of the Establishment Code. That approved hourly rate is one out of 240 of the monthly gross salary. But the hourly rate calculated yet in this department is not based on the current salary and it is based on the consolidated salary as at 30 November 2004.

With considering the complaints of the officers who have been working at low rates for a long time in various work places under minimum facilities, although the overtime rate has been increased, I mention that the officers are currently being paid at a much lower rate than the hourly rate approved by the Secretary of the Ministry of Finance.

(b) The deficit of the fund was increasing than Rs. 35,191,543 compared to the previous year and the balance of the accumulated fund has been gradually decline since the year 2018 due to use of accumulated funds to cover the deficiency. Accordingly, the balance of the accumulated fund which was Rs. 2,331,074,672 in the year 2018 was reduced to Rs. 1,948,778,712 until 31 December 2021.

Agree with the observation.

Adequate attention should be paid to the gradual decline of the balance of the accumulated fund and should be taken necessary steps.

(c) The department had identified the income separately for the income collection centers while recognizing the overtime income, but the overtime expenses for the revenue collection centers had not been recognized separately. Accordingly, the department does not have a system to identify overtime payments for centers providing

According to the need to fulfill the objectives of the department, the collection of income is done as per Gazette No. 1520/17 dated 26 October 2007.

According to the existing roles of the Department of Customs, officers are employed 24 hours on the basis of service requirement in places where the

A proper system should be developed to identify the overtime payments.

overtime services and the overtime value was only identified monthly.

revenue can be levied as well as not. Accordingly, overtime preparation for 2342 officers employed in the Customs Department is done by 12 officers of the Accounts Division and I would like to mention that the relevant documents are prepared according to the designations of the officers for the convenience of calculating overtime.

- (d) According to the regulations in Section 103 of the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka, all money levied by way of fees or charges for services performed by such officers outside normal duty hours prescribed for Custom officers or on the days when Custom is closed for duty and fees or charges collected by any custom officer for performing duty in any office or place other than his regular office or place of work should be credited to the overtime account. Accordingly, overtime payments should be made based on the money received by the custom officers from overtime work. However, the balance of the overtime fund account had taken a minor value due to when the overtime rates charges to the overtime fund were not revised; only the overtime rate payments were revised on 02 occasions and overtime payment from this fund covering all officers of the department in addition to the custom officers.

As stated in the Customs Ordinance, "Persons employed for customs work shall be considered as officers engaged in the service".

Accordingly, overtime will be paid to all officers who are directly and indirectly involved to the work of the department and it is noted that the revision of the fees charged to the overtime fund as stated in the query will be done in future.

Custom officers should arrange to make overtime payments based on the money earned through the overtime work.



#### 4. Accountability and Good Governance

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##### 4.1 Annual Performance

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Audit Observation	Management Comment	Recommendation
(a) Although the past audit reports have consistently indicated that the overtime fund payments were not under formal control, no action has taken yet to regularize this situation.	These payments are made based on the circulars and regulations issued by the Customs Department from time to time subject to the provisions of the Customs ordinance and the number of overtime hours to be paid by each officer based on the division assigned is fixed on the recommendations of the overtime committee appointed by the Director General. However, I would like to mention further that according to the tasks assigned to the Customs Department, the restrictions on the employment of officers can be done at a very minimum level.	Review and streamline the current overtime payment process.
(b) Rs. 93,950,498 had been paid to the officers as overtime expenses in excess of the overtime income collected during the year. Further, the expenditure that exceeded that collected overtime income had increased by Rs. 32,434,768 compared to the previous year.	The following reasons have affected to the decrease in customs overtime and cargo inspection fee income in the year 2021. <ul style="list-style-type: none"><li>• Deployed customs officers for port and airport duties despite the contraction in air travel and cargo transportation due to the Covid-19 pandemic.</li><li>• Periodic import restrictions due to poor economic condition of the country.</li></ul>	The overtime scheme will be funded from external institutions provided by Customs as per the agreements. The management should be taken steps to ensure that overtime payments are not made beyond the funds collected from those external institutions.
(c) The income of the cargo inspection fee account had decreased by Rs. 51,342,118 in the year of promotion and it was a decrease of 16.85 percent compared to the previous year.	-Do-	Income earnings should be managed properly.

## 4.2 Budget Control

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Although Rs.1,055,739,250 was estimated as the income of the overtime fund in 2021, an adverse variance of the actual income of Rs. 201,366,343 was observed over the estimated income due to the actual income earned being Rs. 854,372,907. This was a decline of 19 percent as a percentage of estimated revenue. The main reason for this was the decrease of income under the heading “Colombo” by Rs.207,450,430. Accordingly, according to the budget estimate of the overtime fund, although an excess income of Rs. 165,325 was expected, the result was a deficit of Rs. 176,966,439.</p>	<p>The preparation of estimated related to the budget is done in the third quarter of the previous year and there may be variations in the actual income received in the present year. The following factors have been affected to the actual income decline than the estimated income in the year 2021.</p> <ul style="list-style-type: none"><li>• Deployed customs officers for port and airport duties despite the contraction in air travel and cargo transportation due to the Covid-19 pandemic.</li><li>• Periodic import restrictions due to poor economic condition of the country.</li></ul>	<p>The budget should be properly prepared.</p>