

Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2022

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund of the Department of Customs for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income and expenditure, statement of changes in equity, and fund flow statement for the year then ended and notes to 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in 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 2022, and its financial performance and fund 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 determines 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 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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.
- 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 audit 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 audit 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;

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
A sum equivalent to 10 per cent of the Customs Overtime Fund is credited to the Consolidated Fund of the Government, and a sum of Rs. 7,052,811 remained payable thereto by the end of the year. However, as that value had been shown as Rs. 2,216,702, the creditors' balance had been understated by Rs. 4,836,109 by the end of the year under review.	10% of the receipts to the Customs Overtime Fund is credited to the Government revenue.	The value credited to the Consolidated Fund should be accurately shown in the financial statements.

1.5.2 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Audit Evidence not Furnished	Comment of the Management	Recommendation
a) As for the preparation of overtime revenue estimates, the Audit was not furnished with agreements containing consents between the number of officers assigned and the estimated overtime hours with revenue collection centers.	-	Agreements on consents.	Overtime payments are made by the accounts division to the officers whose overtime has been recommended by the relevant Head of the division. Information in that connection can be obtained from the relevant divisions.	Action should be taken to enter into formal agreements with the relevant institutions.

<p>b) Balances of 475,205,493 overtime and cargo examination fees payable as at the end of the year under review, had been shown in the statement of financial position. Nevertheless, the Audit was informed that cargo examination fees, number of officers attending external examinations and time to be spent thereon could not be forecasted, whilst some of the files relating to payments of miscellaneous divisions had been retained without being forwarded to the financial division.</p>	<p>Information on Cargo cargo examination fees, number of officers attending external examinations and time to be spent thereon.</p>	<p>Formal registers should be maintained with respect to overtime and cargo examination fees payable. of the Department of Customs, number of officers attending external examinations and time to be spent thereon, are decided by the Customs Directors. The payment files are certified by the concerned Customs Director, and presented for payment.</p>
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1.6 Funds Receivable

Audit Observation

The debtors balance of the Department amounted to Rs. 68,682,571 as at 31 December 2022; of that, the debtors balance continued to exist over 04 years, amounted to Rs. 266,180, the balance older than 03 years amounted to Rs. 1,125,605, the balance older than 02 years amounted to Rs. 1,991,434 and the balance older than one year amounted to Rs. 3,648,600. The total of the debtors balance receivable comprised sums ranging from Rs. 2 million

Comment of the Management

Debtors' balances are computed based on estimates given in advance by the shipping companies/shipping agents. At the time of making payments, those values are likely to be changed.

Recommendation

Measures should be taken properly for recovery of the outstanding loan balances.

to 15 million pertaining to 4 airlines and 6 bonded warehouses and shipping companies.

1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Public Administration Circular No. 3/2017 dated 19 April 2017.	All public officers should record their arrival and departure times using finger scanners. Nevertheless, any of the public officers of the Sri Lanka Customs had not done so, but a sum of Rs. 938,872,620 had been paid as overtime for the year under review. Overtime sheets were used to verify that duties were performed outside the normal duty hours, and there were inefficiencies in internal control such as, marking several days at once by employees as being overtime, and the records were not supervised daily by a higher ranking officer. Furthermore, it was not recorded in the leave register by any employee of the 04 divisions examined that leave had been obtained during the period January – April.	The Customs officers should render their services for 24 hours a day considering the specific nature of services of the Department of Customs and the Department is abide by criteria of the World Customs Organization. As such, approval of the Director General was sought to continue the existing methodology of maintaining a register for signing by avoiding inconveniences caused by finger scanners.	The general Circular should be followed by the staff of the Customs as well.

b) Public Finance
Circular, No. 1/2020
dated 28 August
2020.

- (i.) Paragraph 15 (1) (2) (c) The balance after settlement of other liabilities, should be credited to the Consolidated Fund. But, it had not been so done with respect to the sum of Rs. 1,765,360,124 accumulated in the Overtime Fund over an extensive period. The accumulated value existing nominally in the account had been shown as a surplus though, this balance does not physically exist in the account of the Department, and the balance has already been transferred to the bank account (Consolidated Fund) of the Deputy Secretary to the Treasury as per the existing procedure. Nevertheless, this balance comprises funds received from miscellaneous external parties in respect of services rendered outside duty hours, and as such, action has not been taken to credit that balance to the Consolidated Fund. The Circular should be followed.
- (ii.) Paragraph 15 (3) (1) (d) The certified financial statements and performance reports should be presented to the Auditor General with a copy to the Department of Public Finance within a period of 02 months since the end of year of finance. However, only the financial statements of the The prerequisites for a Fund such as, a separate bank account and a cash book, and a ledger and a sub-ledger, are not being maintained, whilst there is no staff for management of funds. As such, information relating to this account The Circular should be followed.

year 2023 had been presented to the Auditor General on 29 March. is included in the performance report of the Department of Customs, and a separate performance report is not prepared with respect to this account.

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| (iii.) Paragraph (3) (2) | 15 A separate bank account had not been maintained to account for the Fund. | Maintaining separate accounts is a practical difficulty. | Compliance with the Circular should be ensured. |
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2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 180,967,588 as compared to the corresponding deficit of Rs. 176,966,439 for the preceding year, thus observing a deterioration of Rs. Rs. 4,001,149. This deterioration had mainly been attributed by the decrease in overtime revenue by Rs. 38,105,354.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) An overtime revenue of Rs. 841,480,851 had been collected for the year under review. Once contributions to the Consolidated Fund and allocations for debtors had been adjusted, total expenditure of the Fund amounted to Rs. 938,780,650. Although the overtime revenue collected in the past should not be used for payment of overtime at the present day, accumulated balance of the Fund relating to the preceding year had been utilized to settle the deficit of Rs. 180,967,588 in the Fund for the year under review. The decision taken to increase payments made on overtime by 50 per cent with effect from 01 October 2018 had	Considering the economic situation of the country and Government policies prevailing from time to time in the country, the overtime committee of the Department had given recommendations to increase the overtime rates whilst entitling the relevant parties for overtime; and, approval of the Director General	Attention of the management should be brought on payments being made in excess of receipts of the Fund.

attributed to this deficit. Furthermore, no formal approval had been obtained thus far from the Ministry of Finance on the decision taken improperly by an internal committee of the Department to increase the hourly overtime rates and include new parties to be entitled for overtime with effect from 01 October 2018.

of Customs had been obtained thereon. According to Regulation No. 17/1520 issued on 26.10.2007 in terms of Customs Ordinance and the amendments thereto, the Director General of Customs is responsible for taking decisions on overtime.

b) The sum of Rs. 220,418 deposited in Sri Lanka Customs by 65 institutions during the period 1967-2007, had been saved in normal savings accounts; hence, an interest of Rs. 13,062,659 had been earned by the end of the year under review whilst the total value of the investment account amounted to Rs. 13,283,077 by the end of the year under review. Nevertheless, the said balance had been brought forward without taking into account the going concern of those institutions, their ability to provide services further, and liaison with the Department.

As no transaction whatsoever had been performed over an extensive period with the 65 institutions mentioned herein, the National Savings Bank was queried as to the possibility of closing the relevant accounts thus transferring the balance and the interest to the Director General of Customs. The Bank replied that the depositor's consent was required in that connection.

An investigation should be carried out on the supply of services and going concern of the institutions at present day. Thus, accounting process should be done properly.

c) Deficit of the Fund had increased by Rs. 4,001,149 as against the preceding year, and as accumulated fund had been used to settle the deficit, the balance of the accumulated fund had been on the decline since 2018. Accordingly, the balance of the accumulated fund amounting to Rs. 2,331,074,672 in the year 2018 had decreased to Rs. 1,765,360,124 by 31 December 2022.

Agreed with the observation.

Attention should be drawn on the balance of the accumulated fund becoming decreased gradually.

- d) According to the Gazette Extraordinary No. 1520/17 of the Democratic Socialist Republic of Sri Lanka dated 26 October 2007, all sums recovered as fees or charges for services rendered by officers of Customs outside the hours of general attendance appointed for such officers or on days when the Customs House is closed for business, and all sums recovered as fees or charges for the attendance of any officer of Customs at any office of place other than his proper office or place of employment, shall be credited to the Customs Overtime Fund. Accordingly, payments on overtime should be made based on monies received on overtime of the Customs officers. However, balance of the Overtime Fund was on the decline as overtime had been paid to all the officers of the Department from this Fund in addition to the Customs officers.
- According to provisions of the Customs Ordinance, the Director General of Customs is authorized to employ other officers on duties relating to Customs. Accordingly, Customs officers, officers of the island wide services, and miscellaneous officers of the Combined Service are attached to the Department of Customs. Fees on services rendered by the Department of Customs are collected by several divisions as per Gazette Extraordinary No. 17/1520 dated 26.10.2007. However, coordination among all other divisions is necessary for such activities. Hence, payments for overtime are made for all the officers involved in executing such duties.
- A proper methodology should be put in place to recognize payments for overtime.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>The revenue collected to the Fund for the year under review with respect to overtime, cargo examination and Information Technology, amounted to Rs. 841,480,851, Rs. 228,163,550 and Rs. 14,976,000 respectively. The officers involved in those tasks had been paid a sum of Rs. 938,872,620 equivalent to 111 per cent of the overtime revenue, 50 per cent of the cargo examination revenue amounting to Rs. 114,081,775 and 80 per cent of</p>		

the revenue through Information Technology amounting to Rs. 11,980,800. The following matters were observed in the said payment process.

- a) Despite being continuously pointed out in the previous audit reports that payments were not made under proper control through the Overtime Fund, no action whatsoever has been taken thus far to formalize this process.
- Overtime revenue is collected by the Department of Customs for facilitating international trade. Overtime is paid to all the officers involved in that process. An overtime committee has been appointed to provide recommendations for the Director General to take decisions on the payment of overtime in the Department.
- The overtime payment process currently followed by the Department, should be revised.
- b) The officers had been paid an overtime payment totalling Rs. 97,391,769 in excess of the overtime revenue collected in the year. The expenditure on overtime in excess of the overtime revenue collected, had increased by Rs. 3,441,271 as against the preceding year.
- The overtime revenue collected had been on the decline as recoveries had been made at rates not updated as per the Gazette Extraordinary No. 17/1520 dated 2007.10.26 and amendments thereto, and Government policies formulated from time to time. A committee on the recovery of fees has been appointed to revise the collection of revenue under the Fund thus updating the process. The said rates will be updated
- Payments should not be made in excess of the revenue collected.

in due course as per recommendations of the committee.

- c) Revenue for the current year had decreased by Rs. 25,213,318 in the cargo examination account indicating a decline of 9.95 per cent as against the preceding year. The revenue collected had been on the decline in the cargo examination account as recoveries had been made at rates not updated as per the Gazette Extraordinary No. 17/1520 dated 2007.10.26 and amendments thereto, and Government policies formulated from time to time. Collection of revenue should be properly managed.
- d) Overtime had been paid to officers of Sri Lanka Customs through the Overtime Fund of Sri Lanka Customs as well as Head of Expenditure No. 247-1-1-1002 of the Sri Lanka Customs. Considering that overtime was paid to some of the officers from the Customs Overtime Fund subject to a maximum of 600 hours per month, it was observed that payments would be made to the same officer through the Overtime Fund as well as the Consolidated Fund. Overtime payments made under Head of Expenditure No. 247-1-1002 from the Consolidated Fund had been suspended from 2023. Furthermore, no overtime had been paid from Consolidated Fund to the officers entitled to a maximum of 600 overtime hours. The possibility for the same officer to receive overtime payments under both methods, should be examined.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
<p>A revenue of Rs. 1,111,915,500 had been estimated for the Overtime Fund for the year 2022 whereas the actual revenue amounted to Rs. 841,480,851; hence, an unfavorable variation of Rs. 270,434,649 was observed in the actual revenue over the estimated revenue indicating a deterioration of 24 per cent of the estimated revenue. The decrease in revenue by Rs. 270,578,467 under sub-head, “Colombo” had mainly attributed thereto. Accordingly, an excess revenue of Rs. 723,950 was expected as per budget estimated of the Overtime Fund though, a deficit of Rs. 180,967,588 had resulted in.</p>	<p>Revenue under the Overtime Fund is estimated based on the existing national policies and legal frameworks. However, the estimated revenue had decreased due to restriction on imports following the economic crisis prevailed in the year 2022.</p>	<p>The budget should be made use of as an effective instrument of management control.</p>