

Customs Overtime, Cargo Inspection Fees and Customs Information and Technology Communication Fund - 2019

1.1 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 2019 comprising the statement of financial position as at 31 December 2019 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 Section 103 (2) (b) of the Customs Ordinance (Authority 235) and 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 2019, 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 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 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.

1.5 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 Accounting Policies

Audit Observation -----	Comments of the Management -----	Recommendation -----
While provision had been done for doubtful debt 5 per cent or Rs. 6,272,862 out of the total debtor balance of the Fund of Rs. 125,457,248, 42 per cent of these debtors balance had existing since year 2015. A common rate had been prescribed for doubtful debt without considering the existence and lifetime of the debtors.	Out of the total debt balance of Rs. 125,457,247, Rs. 53,163,000 is applicable for the year 2015, Rs. 1,763,642 for the year 2018 and the balance amount of Rs.70,530,605 is applicable for the year 2019. According to the audit report, 42 per cent of the debtors' pre-2015 value was Rs. 53,163,000 above the amount is due from Sri Lankan Airlines for the year 2015. Due to errors in the flight schedules for the year 2015, the arrears were not paid	A common rate should be prescribed for doubtful debt by considering the recoveries from debtors.

by Sri Lankan Airlines and the officials of this department were reviewing the schedules with the officials of Sri Lankan Airlines and correcting the relevant invoices. Sri Lankan Airlines is gradually making payments for the months so corrected. (Details are given under Audit Paragraph No. 02.) Accordingly, Rs.12,303,000 has been paid so far for January, February and March 2015. Further, since the service is provided on a loan basis to the shipping companies with a security deposit to the Customs Department, payments for the months of November and December of the relevant account year at the end of one financial year will be made in the opening months of the following year, so at the end of the financial year under consideration that year will be considered Indicates a debtor balance.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
	-----	-----	-----
(a)	As at 31 December 2019, 55 per cent of the total outstanding balance of Rs.125,457,248 due from 92 institutions, or Rs.69,589,500, was due to the fund from Sri Lankan Airlines. No action had been taken to recover these arrears until the end of the year under review.	The answer to paragraph 1.5.2 of this report applies.	As this is a life member of the company, the relevant balance should be recovered immediately.
(b)	During the period from 1967 to 2007, the total investment	As there are no service provide in the name of these 75 institutions at	Investigate the current service delivery and the

was Rs. 13,330,735, earning interest income of Rs.13,077,421 from external investments amounting to Rs.253,314 deposited by 75 institutions in the Sri Lanka Customs. The existence of these institutions as well as the present service were carried forward without any investigation into the relevant balance in the liabilities and investment accounts.

present, it is not possible to investigate the deposit and the Registrar of Companies has been inquired about the existence of these institutions. However, I kindly inform you that in the future we will work on the possibility of crediting this amount to the Consolidated Fund.

existence of the institution and make proper accounting or other necessary activities should be done.

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

 The following are instances of non-compliance with laws, rules, regulations and management decisions

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of Management	Recommendation
-----	-----	-----	-----
(a) Section 103 of the Customs Ordinance, Gazette (Extraordinary) bearing No. 1520/17 of 26 October 2007 and Internal Circular is bearing No. 218 (F) of 31 December 2002.	<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 receipts, action had not been taken accordingly. • The Chief Preventive Officer had not submitted a report of confirmation to the Accountant (Overtime) after examining the 	<ul style="list-style-type: none"> Sending and checking the overtime reports that are collected daily by the Assistant Preventive Officer (Customs Duties) to the Accountant (Overtime) on a daily basis is practically problematic. Action had taken to greatly reduce the deficit in overtime receipts. I kindly inform you that the relevant sections have been informed to take action in this regard. 	<ul style="list-style-type: none"> Great attention should be focussed on Laws and Circulars. Great attention should be focussed on Laws and Circulars. Great attention should be focussed on Laws and Circulars.

information of Ship Agents against the data of the Sri Lanka Ports Authority.

- 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. I kindly inform you that the relevant sections have been informed to take action in this regard. 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 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. Sri Lanka Customs receives a deposit of Rs. 100,000 from the local agent of the ship or the local agent of the company that owns the ship for shipping activities. Deposits thus obtained are accounted for under Deposit Account No. 1/128 of the Public Accounts Department of the Treasury. The money thus obtained will be credited on the same day to the account No. 00110129026664 of the People's Bank maintained in the name of the Director General of Customs under the Bank Account Network of the Department of Treasury Operations. Accordingly, the money accumulated under this account facilitates the reduction of interest paid on the Great attention should be focussed on Laws and Circulars.

bank overdraft of the General Treasury. The Guarantee Bond will be renewed annually and the shipping companies will be required to renew the guarantee when they need it (when the service is discontinued). Therefore, I kindly inform you that it is not practical to invest all the guaranteed deposits in an investment route.

- (b) Public Administration Circular No. 2017/3 of 19 April 2017. 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. 920,836,747. Work is underway to install fingerprint machines to mark arrival and departure. 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.
- (c) Public Finance Circular No. PF/423 of 22 December 2016 paragraph 3.2 (b) Even though an amount of Rs. 13,330,735 as investments within the overtime fund and an amount of Rs. 2,233,422,822 as Treasury Fund were accumulated from a longer period of time, surplus amounts had not been credited to the Consolidated Fund as per the circular provisions. 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- Discuss with the Treasury the excess money that is accumulating according to the relevant circular and implement an appropriate program.

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 paid to the Customs Officers.

Further, as per Chapter IX of the Establishments Code, 10 per cent out of the fees collected as overtime should be credited to the Consolidated Fund and the remainder could be allowed to be used by the officers.

This will increase the efficiency of the Department as the employees are committed to do more work owing to the high level of satisfaction among employees by working in this manner. I kindly inform you that, 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.

2.1 Financial Result

The operating result of the year under review amounted to a deficiency of Rs. 55,141,127 and the corresponding surplus in the preceding year amounted to Rs. 334,904,166. Therefore, a deterioration amounting to Rs. 390,045,293 of the financial result was observed. It was observed that the following factors had contributed to this.

- (a) No action was taken to increase customs overtime revenue during the year under review. According to a decision of the Overtime Review Committee, the hourly overtime pay has been increased by 50 percent from October 01, 2018.
- (b) The decision of the Overtime Review Committee to Increase the overtime allowance paid to the Deputy Directors of Customs to Rs. 81.24, 600 hours overtime allowance for all directors of customs and pay up to 600 hours of overtime to the Assistant Superintendents of Customs in 07 divisions were also a major factor in the deterioration of the funds.

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. 954,715,434 Rs.309,047,969 and Rs. 14,976,000 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. 920,836,747 as 96 per cent from the overtime income, Rs. 154,523,984 as 50 per cent from the cargo examination and Rs. 11,980,800 as 80 per cent from information technological activities.

2.3 Ratio Analysis

The current asset ratio was 6.08 in the previous year and 5.98 in the year under review. Accordingly, it was observed that the current asset ratio deteriorated by 0.1 per cent in the year under review compared to the previous year.

3 Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) Even though employing Officers continuously for 24 hours daily is a highly unusual situation, 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.	Studies are underway to revise the overtime payment system and to install fingerprint machines to mark arrival and departure.	Supervising Officers should greatly supervise the payment of overtime.
(b) 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 this situation.	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.
(c) Although an agreement had to be obtained from the Ministry of Public Administration and the Ministry of Finance to revise the overtime pay, the overtime pay had been revised on 04 occasions on the decisions of an internal committee called the Overtime Review Committee without obtaining such a formal agreement.	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.
(d) Rs.859,244,971 had been	I agree with the audit	Overtime payments

collected as overtime income after deducting the government contribution (10 per cent) for the year under review. The overtime fund had a deficit of Rs. 55,141,127 during the year under review due to the expenditure of Rs. 914,386,098 incurred by the fund during the year under review.

observations. should be made under proper supervision and formal approval, taking into account practical conditions.

- (e) No action had been taken to revise the fees and charges, and an hourly overtime payment of 50 per cent had been increased from October 1, 2018, by a decision of an internal committee. Accordingly, the Overtime Review Committee has decided to Increasing the overtime pay rate for Deputy Directors of Customs, to pay an overtime allowance of 600 hours per month to all Directors of Customs and to pay an overtime allowance of up to 600 hours per month to Assistant Superintendents of Customs in 07 divisions. Thus, the audit did not submit a specific approval obtained to increase the allowances to the customs staff. Thus, a specific approval obtained to increase the allowances to the customs staff had not submitted to the audit.
- I agree with the audit observations. Overtime payments should be made under proper supervision and formal approval, taking into account practical conditions.