

Customs Officers' Management and Compensation Fund -2019

1.1 Qualified Opinion

The audit of the financial statements of the Customs Officers' Management and Compensation Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Section 153 (2) (a) 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 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 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 based 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 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.

1.4 Audit Scope (Auditor's Responsibility in Auditing 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 skepticism 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 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 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 performed according to its powers, functions and duties; and
- Whether the resources 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. The audit observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under these headings.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
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<p>Submission of financial statements in accordance with Sri Lanka Public Sector Accounting Standards No. 01</p> <p>-----</p> <p>(a) The assets of an entity should be governed by that entity in accordance with the Standard and those assets should be useful in order to achieve the objectives of the entity. Although the carrying</p>	<p>One of the objectives of the formation of Customs Officers' Management and Compensation Fund is incurring expenditure in providing visible facilities by</p>	<p>Since it was reported that the financial statements have been prepared in accordance with the Sri Lanka Public Sector Accounting Standards, this</p>

value of non-current assets as at 31 December of the year under review had been recorded as Rs. 55,512,780, it was observed that these assets were being used by the Sri Lanka Customs for its operations without utilizing for the purposes of the Fund. An expenditure of Rs.26,673,636 had also been brought to accounts for the year under review as annual depreciation relating to these assets.

the Director General of Customs to enhance the effectiveness of Customs Management as mentioned in Section 153 (a) (1) of the Customs Ordinance which includes the Management Provisions relevant to this Fund. Accordingly, since the non-current assets utilized by spending funds are used to improve the efficiency of the Management of the Sri Lanka Customs, the accounted expenses are in consistent with it.

Fund is a separate entity. Therefore, only the assets used for the benefit of the Fund should be accounted for under the Fund.

(b) Although the cash flow statement is one of the components required to be submitted with a set of financial statement in accordance with Paragraph 21(d) of the standard, instead, a fund flow statement had been presented.

It is kindly informed that there is no need to prepare a cash flow statement as the Fund does not maintain a cash book and a bank account separately for transactions.

As required by the standard a cash flow statement should be submitted along with the financial statements .

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) When recording transactions in the Management and Compensation Fund the double entry system is not completely used and one entry of inter -ledger transactions is made in the ledger account of this Fund whilst the other entry is recorded in the main cash book of the Customs. Accordingly, it was observed that the relevant entries were made without preparing a control account which connects to the main cash book of the Customs in entering transactions of the</p>	<p>In entering transactions of the Customs Officers' Management and Compensation Fund , the main cash book of the Customs is used and because of the transactions that take place in each month are compared with the printouts of the Treasury, it is kindly informed that there is no need to maintain a control account.</p>	<p>(i) A control account which connects to the main cash book, should be maintained.</p> <p>(ii) As it was reported that the accounts of the Fund have been prepared in accordance with the Sri Lanka Public Sector Accounting Standards, maintain a separate set of books of accounts in which all transactions of the Fund are recorded</p>

Management and Compensation Fund.

separately and preparation of financial statements accordingly.

(b) The value of Rs.130,440,911 that was 20 per cent contribution to the Management and Compensation Fund from the fines received from 90 files out of 113 custom offenses completed by the end of the year under review had been omitted from the accounts.

The audit observations are accurate. Even though the investigation was completed according to the currently following methodology, the 20 per cent contribution will not be credited to the Customs Officers' Management and Compensation Fund until the gift files are paid.

If the financial statements are prepared in accordance with the Sri Lanka Public Sector Accounting Standards, the accounts should be prepared on accrual basis.

1.5.4 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Management	Recommendation
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<p>The differences of Rs.2,122,369 and Rs.21,998,802 were observed between the opening balance and the closing balance of the Treasury Books and the Department Books respectively with regard to General Deposit Account No. 6000/0000/00/0006/0061/000 .</p>	<p>The reason for the difference between the balances of Treasury Books and Departmental Books at the end of the year under review was the entering of journal entry No. 144 in departmental books twice at the end of the year. That balance has already been corrected in the department books.</p>	<p>If there was any discrepancy between the data in the preparation of the financial statements; Financial statements should be submitted after reconciling those differences.</p>

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs.517,183,257 and correspondingly surplus of the preceding year was Rs.652,931,695. Accordingly, a deterioration of Rs. 135,748,438 was observed in the financial results. Decrease in penalty income by Rs.154,637,668, increase in postgraduate training expenses by Rs.35,740,014 and increase in building maintenance expenditure by Rs.7,025,683 had mainly attributed to this deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Officers had been selected for overseas training programmes without following a formal procedure.	It is kindly informed that the attention has been drawn on revising the existing methods.	A written procedure should be maintained to ascertain that every officer selected for overseas training is chosen under a formal system.
(b) Lack of a formal methodology to compare the income receivable to the Fund and Funds Received.	Incomes receivable to the Fund are shown in Note 2.4 of the set of Financial Statements and the incomes generated is illustrated in the Income Statement.	Necessary actions should be taken to maintain a systematic control system by focusing on the areas of control and existing systems.
(c) Non-compliance with Sri Lanka Public Sector Accounting Standards in accounting for and preparation of Financial Statements.	The attention on further improvements that need to be made to minimize the shortcomings that pointed out in the audit has been drawn.	-do-
(d) Failure to compare account balances with their corresponding schedule balances.	-do--	-do-
(e) Transactions related to the main account of the Sri Lanka Customs were not done through a control account.	-do-	-do-

3.2 Performance

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) Since specific criteria and expenditure on intended future objectives had not been accurately planned for enhancing the effectiveness of management of the Customs Officers and for the payment of compensation to officers, a tendency for continuous increase in the cumulative balance of the Fund was observed annually. It was observed that the cumulative balance of the Fund, which was Rs. 6,817 million as at 31 December 2018, had increased by Rs. 517 million or 7 per cent up to Rs. 7,334 million by 31 December 2019. It was accordingly observed that almost 71 per cent of the income of the year under review had accumulated in the Fund. The following matters were further observed in this regard.</p>	<p>Since it had not been possible to correctly estimate the local and foreign trainings and workshops provided for the enhancement of management effectiveness of the Customs Officers and the incidents that may lead to pay the compensations to the officers in advance, this situation has emerged. Further, the amount annually accumulates to this Fund cannot be correctly estimated in advance. Accordingly, due to spending an amount less than the provisions allocated for the Fund annually, the Fund increases annually.</p>	<p>The Customs Ordinance is as old as 51 years by now and it had been formulated taking into consideration the import and export conditions prevailed at that time. Nevertheless, it should be amended to suit to the current requirements by taking into account the present dynamic situations.</p>
<p>(i) A sum of Rs. 5,529 million had been credited to this Fund during the period from the year 2012 to the year 2019 the number of customs investigations completed during that period stood at 1,884. Although 884.90 million had been allocated for this Fund in the year 2018, in the year 2019, it had fallen to Rs.729.36 million by 17 per cent.</p>	<p>Twenty per cent of the sales income and penalties imposed upon Customs inquiries is credited to this Fund in terms of provisions of the Customs Ordinance. Accordingly, there is a cumulative balance of this nature of this Fund and the current balances accumulate to the Fund annually, thus increasing the value of the Fund. Amidst the increase in the tendency for earning money fraudulently in the present society, it is found difficult to expect a decrease of the custom duty frauds.</p>	<p>It should introduce a methodology to suit the present situation in order to improve the efficiency of the officers.</p>

(ii) Since the Government tax revenue deprived in the imposition of penalties for Customs offences had been taken into account as a part of that penalty and rewards of the officers had been decided based on that penalty, cash prices as well as the provisions located to this Fund had increased.

Since the officers skilfully take measures to discover the Custom offences, it makes room for imposition of penalty on such offences. If any offence is not so discovered, the total revenue relevant to that incident becomes an amount deprived by the Government. However, it is kindly informed that since 30 per cent of the amount collected by discovering a Customs offence due to skilfulness of the officers is received by the Government, it makes a contribution to the Government Revenue in certain extent and motivation of the Customs Officers can be retained at a higher level regarding the discovery of Customs offences.

It appears that it is the duty of the customs officers to detect the customs errors at the beginning. The necessary actions should be taken carrying out 70 per cent of the proceeds from the subsequent investigation by customs officials and the proceeds from the sale of confiscated goods did not reach the Consolidated Fund due to non-detection of customs fault in the first instance.

(iii) It was observed that the failure to make amendments properly and timely to the Customs Ordinance and legal provisions of the relevant Funds to suit to the complexity created in the import and export process as a result of present liberal economic policy has mainly attributed to these improvements.

The Customs Ordinance act and the legal provisions on funds have been amended in a proper way and attention will be drawn as applicable accordingly, on revising in future.

The Customs Ordinance is now about 151 years old and although it was prepared based on the import and export conditions prevailing at that time and it is necessary to amend the existing act as appropriate with the present to take into account the current import and export situation.

(iv) The audit observes the need for obtaining the attention of the responsible parties to review the past activities of the Fund and formulate an appropriate

The Management has not provided answers.

An appropriate methodology should be formulated by inquiring from the Treasury about the excess money.

methodology for obtaining the accumulated balances in the Fund for the Consolidated Fund.

- (b) Even though the payment of compensations to the Customs Officers who victimize to the hazards in the discharge of their duties had been identified as a one of the prime objectives of the Fund, no such payment of compensation had been reported during the examined period of past 06 years. Accordingly, money had been further collected extraordinarily to the Fund for the achievement of the above objective.
- The audit observation is accurate.
- The Act should be amended and a system suitable for the present situation should be introduced to pay compensation to the Customs officers.

4. Accountability and Good Governance

4.1 Budgetary Control

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Significance variances ranging from 76 per cent to 132 per cent were observed in comparing budgeted and the actual figures relating to four Items of Expenditure incurred from the Fund during the year under review, thus indicating that the Budget had not been made use of as an effective instrument of management control.	It is impossible to accurately calculate or predict the value of those errors and the probability of customs errors. Therefore, it is difficult to estimate 100 per cent accurately any how the penalty income and revenue from the sale of confiscated goods which were the main income sources of the Customs Officers' Gifts Fund.	When the budget is prepared, the requirements should be properly identified and the necessary provisions should be made.
(b) Although revenue of Rs.24,378,270 had been earned under the Other	Revenue categories have been introduced separately	The variance between the budget estimate and the actual values should

Income Head during the year under review, it was impossible to identify the revenue category precisely in the preparation of the Budget Estimates.

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be kept at a minimum level.

(c) Although an expenditure of Rs.43,255,224 had incurred under 08 Expenditure Heads during the year under review, the budgetary provisions had not been made available for those Expenditure Heads.

Budgetary provisions had been made available for the major expenditures generally, though not mentioned separately under each Expenditure Head.

Efforts should be made to spend as much as possible on the provisions allocated as per the Annual Action Plan.