Non Recognition of Commissions on Inward Remittances

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Introduction

XYZ is a leading commercial bank in Sri Lanka who holds number of subsidiaries, associate companies and investments in various financial instruments. The State Council of Ceylon is approving the establishment of a National Bank in Ceylon based on the recommendations of the Banking Commission, which has been appointed in 1934 by the Governor. Banks play an important role as an intermediary in the financial system therefore it’s playing major role in the economy.

Discussion of the Issue

Inward remittance implies a money transfer into a customer account which is made, from domestically or internationally when it is a domestic remittance, money transfers within the country and in international remittance, money transferring from another country. In this company some customer account got credited by money transfer amount, but that amount does not contain the commission amount of the Agent.

Inward Remittances Department of the bank has not charged the commission of one agent for inward remittances.

Audit Period 07/08/2017 – 05/10/2017

According to the agreement dated 22nd December 2005, commission – should be charged from the customer.

Inward Remittances Department was not aware about the conditions and assumed that commissions were already deducted from the agent.

The commissions have not been charged from either customer or the agent for Inward Remittances.
**Implication**

Period considered 01.08.2016 – 28.02.2017

Understatement of profit of current financial year

Understatement of receivables of current financial year

<table>
<thead>
<tr>
<th>No of Remittances received to the Bank A/Cs (LKR)</th>
<th>Commission amount Rs.</th>
<th>Total Loss Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4080</td>
<td>100/-</td>
<td>408,000/-</td>
</tr>
</tbody>
</table>

**Conclusion and Recommendation**

Following are the recommendations for this issue,

Charge commission rate mentioned in the agreement with the Agent, wherever applicable.

*According to the paragraph 20 of LKAS 18-Revenue standard*

Commissions of remittances has to be recognized as revenue when all of the following conditions are satisfied;

- The amount of revenue can be measure reliably.

- It is probable that the economic benefits associated with the transaction will flow to the entity.

- The stage of completion of the transaction at the end of the reporting period can be measured reliably.

*According to the paragraph 08,*

Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own accounts. Amount collected on behalf of third parties are not economic benefits which flow to the entity and do not results in increases in equity. Similarly, in agency relationship, the gross inflows of economic benefit include amount collected on behalf of the principle and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.
**As the Auditor**

Performed a process study for the Inward Remittances Department and checked the agreements with separate agents and based on that, independently calculated the commissions entitled.

*Recommended double entry for the transaction are as follows,*

1) When the remittances credited to the customer's Account.

<table>
<thead>
<tr>
<th>Account</th>
<th>Dr</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Cash Account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer’s Account</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Commissions Account</td>
<td></td>
<td>xxx</td>
</tr>
</tbody>
</table>

(Common Cash Accounts are being maintained in currency wise for the purpose of transferring funds from the Agent to the Bank)

In addition to that it is suggested to implement a proper IT related system in recognizing and reporting commission related income, in the Internal Audit Report. Further establishing a proper interrelationship with Inward Remittances Department and Compliance Department of the Bank, is also important in the scenario.