

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Custom Officers' Management and Compensation Fund of the Sri Lanka Customs for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and fund flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, 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 of the Fund give a true and fair view of the financial position of the Fund as at 31 December 2024, and of its financial performance and their fund flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Qualified Opinion

My opinion on the accompanying financial statements 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 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 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.
- Obtained 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 to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including disclosures, and the transactions and events on which the content is based are appropriately and fairly included in the financial statements.

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 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

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non- Compliance with the reference to particular Standard	Comments of theManagement	Recommendation
(a) Although the financial statements are to be prepared on an accrual basis in accordance with Sri Lanka Public Sector Accounting Standard No. 01, the value of the outstanding penalties and forfeitures amounting to Rs. 4,800,470,461 which had not been recovered by Customs as at 31 December 2024, the value of Rs. 960,094,092 which is 20 percent of the amount related to this fund and the amount related to the fund from the value of penalties and forfeitures which had already been received but the Reward files had not been prepared had not been shown as income receivable in the fund. Accordingly, it was observed that the value shown in the statement of financial position as the fund receivable through deposits (penalties and forfeitures) as at the end of the year was not correct.	All fines and proceeds from the sale of confiscated goods are credited to the Temporary Deposit Account (18/128) for statutory payments. There are times when fines related to the investigation have to be refunded to the relevant persons after the completion of certain investigations. Furthermore, the funds deposited in this manner also have to be used to cover the expenses related to the investigations. Therefore, the remaining funds, after deducting those expenses, are credited to the Customs Officers' Reward Fund (50%), the Management Compensation Fund (20%) and the State Revenue (30%) at the time of the completion of the investigation file and the payment of the reward file. Therefore, since it is not possible to identify a specific amount for accounting for penalty income receivable until the relevant investigation is completed, the accounts are maintained on the basis described above.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(b) Although the residual value and useful life of an asset should be reviewed at least at the end of each annual reporting period in accordance with Sri Lanka Public Sector Accounting Standard No. 7, such action had not been taken in respect of weapons, library books,	Noted for corrections	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

computers, computer accessories, television sets and laboratory equipment, which had a fully depreciated cost of Rs. 151,821,560.

1.5.2 Unreconciled Accounts

Audit Observation	Comments of the Management	Recommendation
<p>In accordance with the Section 153 (b) 1 of Customs Ordinance No. 17 of 1869, 50 percent for the Customs Reward Fund and 20 percent for the Management and Compensation Fund from sale proceeds of forfeited goods and penalties should be credited. Accordingly, in proportion to the 50 percent contribution of Rs. 8,975,906,478 identified as income of the Reward Fund, the 20 percent contribution to the Management and Compensation Fund should have been Rs. 3,590,362,591 for the year under review, but the income of the Management and Compensation Fund was shown in the financial statements as Rs. 3,413,660,135, resulting in a discrepancy of Rs. 176,702,456 in income.</p>	<p>cannot be agreed with the audit observation.</p> <p>Although the total amount of payments for the year 2024 was paid to the Customs Reward Fund, which was 50% of the income from the sale of penalties and forfeited goods, If a share payment was made in the previous year, that amount was added, 20% of the income received after deducting the amount paid for shares in the year 2024 and other receipts has been calculated as income for the Management and Compensation Fund, and after adding the amount of Rs. 455,841.32 received as other receipts to the amount so calculated, an amount of Rs. 3,413,660,134.59 has been received.</p>	<p>When 50 per cent of the revenue from the sale of forfeited goods and penalties is credited to the Customs Reward Fund, 20 per cent should be credited to this fund proportionately.</p>

1.5.3 Lack of Audit Evidences

Subject	Comments of the Management	Recommendation
<p>Although the statement of financial position stated that property, plant and equipment with a cost of Rs. 123,465,298 and accumulated depreciation of Rs. 117,667,414 under 02 asset categories were in non-current assets, no information such as fixed asset records, inventory reports, storage locations, etc., required to verify assets other than library books and laboratory equipment, had been presented for audit.</p>	<p>In response to your letter No. PUR/B/CUS/INFO/2025/38 dated 2025.04.02, the fixed asset records related to the library and laboratory have been sent to you as informed in the letter No. CUS/FMU/DL/DDC/01/13 dated 2025.04.12.</p>	<p>Relevant documents should be maintained to ensure the safeguarding of assets and accountability for assets.</p>

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>(a) F.R.371 and Public Finance Circular No. 01/2020 dated 28 August 2020</p>	<p>The interim advance should be given to the officer on the date closest to the specific work concerned and the officer should settle the advance within 10 days of completing the work. However, it had been taken 12 to 53 days to settle the advance money ranging from Rs. 5,000 to Rs. 700,000 given on 12 occasions from the Customs Officers' Management Compensation Fund.</p>	<p>Although the advance money for training workshops received by the Human Resources Development Division is received on the commencement date of the training program, such programs are sometimes conducted for a period of about a month and the advances is settled promptly at the last day of the programs without delays. However, the advance money received is recorded to be settled immediately after the completion of the relevant program. Accordingly, there is no need to obtain special approval from the Minister.</p>	<p>Should be comply with financial regulations and circular provisions.</p>
<p>(b) Financial Regulations 371(2)</p>	<p>For a specific task, only staff officers can be given interim advance subject to a maximum of Rs. 100,000 and if that maximum limit is exceeded, a procurement process should be initiated. However, in two cases where the said limits were exceeded, the work obtained by the interim advances, was divided into two parts and two officers had been given interim advances of Rs. 124,000 and Rs. 190,000 in two cases.</p>	<p>have made a note to correct it in the future.</p>	<p>Should be comply with financial regulations.</p>

2. Financial Review
2.1 Financial Results

The operating result of the year under review was a surplus of Rs.3,346,928,257 and the corresponding surplus for the preceding year was Rs.2,400,069,243 Accordingly, an improvement of Rs.946,859,014 was observed in the financial results. The increase in income from penalties by Rs.863,146,555 was the main reasons for this improvement.

3. Operational review
3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of Rs. 19,350,000 had been reimbursed by the Fund during the year under review to 49 Customs officers who had completed the Postgraduate Degree Courses. In relation to the reimbursements, the original copies of the agreements entered into with 48 officers and copies of the certificates of the courses of 27 officers had not been forwarded to the personal files.	The agreements made with the officers who have completed postgraduate studies will be included in the file opened for the relevant officer in the Human Resources Development Division. In future, have taken note to provide the original copy of the agreement to the Human Resources Management Division for inclusion in the personal files of the relevant officers. Also kindly inform you that, will provide a copy of the degree certificates given by the officers who have completed postgraduate studies during the reimbursement of course fees and a copy of the confirmation letter from the relevant university for inclusion in the personal files of those officers.	Original copies of agreements and copies of postgraduate course certificates should be included in the personal files of the relevant officers.
(b) The fund had been continued to grow due to insufficient steps being taken to introduce advanced methods involving artificial intelligence to control customs tax fraud, the widespread payment of rewards for various customs offences identified by officers in the course of their normal duties, and the fact that 20 percent of all customs offences identified were credited to the fund.	The use of artificial intelligence to control customs fraud is a positive step. However, the unique ability, knowledge and experience of customs officers are utilized in identifying customs frauds and frauds. Furthermore, the relevant funds will be credited to this fund in accordance with the provisions of the Customs Ordinance and departmental orders. An internationally accepted positive method of preventing customs fraud or the importation of prohibited and restricted goods into the country is to provide rewards to officials or informants, and in this case, the nature of the duties done is not taken into account in giving them.	Modern technological methods should be introduced to control customs fraud.

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| <p>(c) In some cases, penalties of up to three times the value of the goods and taxes attempted to be defrauded were imposed but there was no significant reduction in customs offences, and the legal provisions of the Customs Ordinance and relevant funds had not been amended in a systematic and timely manner to suit the complexity of imports and exports resulting from the current liberal economic policies, Because of that, had not been possible to control customs offences through penalties and forfeitures.</p> | <p>The current liberal economic policies have led to a complexity in imports and exports. Due to this complexity, the possibility of identifying customs violations at the time of clearance of imported goods is minimal, and the currently accepted method in the world is post-clearance audit, the provisions for which are in the Customs Ordinance.</p> <p>The imposition of penalties up to three times the value of the goods for customs fraud offences and the imposition of penalties/deprivations for exposing a large amount of fraud have contributed greatly to the performance of the department and the achievement of revenue targets.</p> <p>In a situation where a percentage of the penalty value is credited to this fund, it is a good situation that the amount of money credited to the fund increases in proportion to the increase in penalty income, and at the same time, the government's revenue.</p> | <p>In addition to penalties and confiscations, new and appropriate technological methods should be established to control customs violations.</p> |
| <p>(d) Although the primary objective of the Fund is to provide funds to compensate for disasters caused by Customs officers in the course of their duties, no such compensation has been paid in the past 12 years.</p> | <p>Agreed with the observation.</p> | <p>The percentage allocated to the fund should be re-reviewed and appropriate action taken.</p> |
| <p>(e) The total income of the year under review and the previous 05 years was Rs. 8,823,186,266 and the amount spent from the fund during that period (excluding depreciation) was Rs. 240,493,766. Accordingly, the fund had been accumulated by 97 percent by spending about 3 percent of the total income. Due to this, a review of the amount of money allocated annually to the fund is required.</p> | <p>Agreed with the observation.</p> | <p>The percentage allocated to the fund should be re-reviewed and appropriate action taken.</p> |

(f) Considering the actual and budgeted data on the Fund's expenditure during the year under review, the estimated values of three expenditure items were 64 to 72 percent higher than the actual values and the revenue items were estimated 54 percent higher, accordingly, the budget had not been used as an effective management control tool.

Agreed with the observation.

Domestic Training Expenditure

The decrease in domestic training expenditure compared to the estimated expenditure was due to the inability to conduct certain planned local courses as expected. This was due to the fact that officers did not apply for training even though these courses were identified in the training needs survey and the participation of fewer officers than expected.

Foreign Training Expenditure

Also, the decrease in foreign training expenditure compared to the estimated expenditure was due to the decrease in foreign training opportunities received compared to the previous year, and the Director General of Customs applying for approval from the Ministry of Finance for certain foreign training courses that require expenditure from the Customs Officers' Management and Compensation Fund, but not receiving such approval.

In accordance with other observations regarding budgetary control pointed out by the audit, have noted the shortcomings to be corrected in the future.

Revenue from the sale of confiscated goods

The goods referred to the Central Disposal Division for sale by various departments are immediately put up for sale through tenders and the sale is made to the bidder who submits the highest bid exceeding the valuation given by the Central Valuation Division.

If more goods are referred to the Central Disposal Division for sale by other departments in a year, more revenue can be generated.

(i) Although a provision of Rs. 4,000,000 was allocated in the annual budget for sports and physical fitness in the year under review, no amount had been spent during the year.

have taken note to investigate this and take the necessary steps accordingly.

The budget should be used as an effective management control tool by preparing estimates that are as close to actual values as possible.

The intended objectives of the fund should be reviewed and budget estimates prepared.