

Customs Officers' Reward Fund - 2025

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Customs Officers' Reward Fund of Sri Lanka Customs for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and the statement of financial performance, statement of changes in equity and cash 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 reported 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2025, and of its financial performance and their cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I expressed qualified opinion 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 of the Fund.

1.4 Auditor's Responsibility 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 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.

Audit scope 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to particular standard	Management Comment	Recommendation
Even though financial statements should be prepared on an accrual basis in accordance with paragraph 02 of Sri Lanka Public Sector Accounting Standard No. 01, the income of the Fund had been recognized only based on the reward files submitted for payment to the Finance Division. According to the information submitted to the audit, as at 31 December 2025, the amount of outstanding penalties and forfeitures due to Sri Lanka Customs from external parties amounted to Rs.7,151,811,103 and though it had been received as penalties and forfeitures to the Accounts Division of Sri Lanka Customs, the amount was Rs.2, 064,153,420 on which the reward files had not been prepared. Accordingly, Rs. 4,607,982,261 which is 50 percent of the amount entitled to Fund had not been recognized as accrued income in the financial statements.	Rs.7,628,755,553 as penalties not recovered so far and Rs. 2,064,153,420 as the value of fines received but not further processed in the reward files were reported and these amounts are also disclosed in the notes. The money received as penalty will be credited to the General Deposit Account of the Customs and the 50% value due to the Reward Fund will be credited to the Fund at the time of payment of the reward file.	In accordance with the Sri Lanka Public Sector Accounting Standards, the income to be received to the Fund should be correctly identified on an accrual basis and prepared the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
The other reserves and Narcotic Fund maintained as Sub-Funds of the Reward Fund and the expenses incurred Rs.705,942,036 and Rs.14,800,000 respectively during the year under review were considered as the expenses of the Reward Fund and had been shown them in the Statement of Financial Performance.	Since the fuel, Narcotic Fund, 2.5% rewards and other reserves are Sub-Funds of the Reward Fund itself and separate financial statements are not prepared for those Sub-Funds and since the expenses incurred from those Sub-Funds are expenses of the Reward Fund itself, all the expenses incurred from the Sub-Funds are shown as expenses of the Customs Officers' Reward Fund.	Action should be taken to identify the expenses of the Reward Fund correctly and present clearly and accurately in the statement of financial performance.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 153 (2) (b) of the Customs Ordinance No. 17 of 1869	Even though the distribution of reward money from the Reward Fund should be made in accordance with a scheme to be approved by the Minister of Finance, the reward money had been paid without ascertaining that the concurrence of the Minister of Finance had been obtained for the Departmental Order No. PL 118 dated 28 January 1988. Accordingly, during the 14 years period from 2012 to 2025, a sum of Rs.31,841,796,739 had been distributed as reward money to officers and Rs.5,421,015,509 to informants. Similarly, payments had also been made from the Fund to other officers of the Department who were not directly involved in	Every year, an estimate of expenditure has been prepared for the distribution of reward money from the Reward Fund and the personal approval of the Minister of Finance has been obtained and the money has been paid so far. Further, since the performance of the Sri Lanka Customs is based on the joint contribution of officers from all Divisions, I would like to mention that for the motivation and performance of the officers of the Divisions of Sri Lanka Customs, action has been taken to	Action should be taken to distribute reward money in accordance with the provisions of the Customs Ordinance and the scheme approved by the Minister.

investigations, and the amount of reward allocated to officers of 18 other Divisions during the year under review was Rs. 647,911,453. distribute reward money in a manner that represents officers from all Divisions involved in customs raids.

2. Operational Review

2.1. Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	It was observed that a sum of Rs. 7,151,811,103 imposed as penalties and forfeitures in terms of the sections of the Customs Ordinance remained to be recovered in relation to 252 Customs investigations conducted under 16 Divisions of Sri Lanka Customs during the period before 2021 to the last day of the year under review regarding various irregularities committed by parties related to the import and export process of goods.	The necessary follow-up activities for the recovery of the relevant outstanding penalties and forfeitures include sending reminders to the relevant institutions and individuals, obtaining instructions from the Attorney General's Department, and filing cases in the courts. The renovation of the E-CCR system has already commenced.	Necessary action should be taken to implement an adequate and systematic follow-up mechanism for the prompt recovery of these long-standing penalties and forfeitures, and to develop the computer system so that up-to-date information on outstanding penalties and forfeitures can be obtained through the computer system used for registration of Central Customs Investigations.
(b)	As revealed during the audit test check conducted regarding various irregularities committed by parties related to the import and export process of goods, more than 95 percent of the total penalty of Rs. 46,970,621,345 imposed at the end of the Customs Inquiries Rs. 44,637,800,387 had been mitigated and only Rs. 2,332,820,958 had been recovered for the tax revenue of Rs. 2,097,525,949 defaulted in relation to 65 Customs Inquiries between 2022 and 2024. Since only 30 percent of the	It is observed that neither in the Customs Ordinance nor in any other statutory law states that the value of taxes and fees previously defaulted from the revenue collected at the end of a customs Inquiries should be credited to the Consolidated Fund of the Government. Although an amount equal to three times the value can be transferred as a penalty, it is necessary that the Customs	Taking into account Section 166(b) (b) of the Customs Ordinance, action should be taken to properly collect the revenue to be recovered to the Government.

recovered amount, Rs.699,846,287 had been credited to the Consolidated Fund (the remaining 70 percent is credited to the Reward Fund for the payment of rewards to officers and Customs Officers' Management and Compensation Fund), it was observed that there was a loss of Government revenue of Rs.1,397,679,662 when compared to the tax revenue of Rs.2,097,525,949 that had been defaulted as above. Accordingly, since there had been instances where the revenue received by the Government from the imposition of penalties was not sufficient to cover even the tax revenue that had been defaulted, it was observed that there was a requirement to pay attention to Section 166(b)(b) of the Customs Ordinance.

Inquiry Officer has the discretionary power to impose an appropriate fine for the offence committed. However, the Departmental Order No. 1697 dated 27.08.2025 has already been issued to impose appropriate fines to prevent the same offence from recurring.

Considering Section 166 of the Customs Ordinance contextually, action has been taken to mitigate the penalties under Section 163.

2.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
Customs investigations are initiated on the basis of facts discovered by Customs officers regarding customs fraud or offences or on the basis of information provided by informants, and 42,086 customs investigations had been registered by various Divisions of Customs during the period from 01 July 2015 to 31 December 2025. However, out of those investigations, 9,307 or 22 percent had not been concluded even by 31 December 2025, and it was observed that 4,892 or 52.5 percent of those unresolved investigations had not been resolved for more than 05 years, and 3,207 or 34 percent had not been resolved for more than 01 year but less than 05 years. It was observed that due to the delay in finalizing customs investigation files for many years could lead to adverse situations such as delays	There are various reasons for the delay in solving investigations. It takes time to find documents to confirm whether or not a customs offence has been committed, to analyze the information received by Customs and to repeatedly disclose the facts accordingly, to respond to the suspicious parties /institutions as appropriate to the customs, to take necessary steps to bring the suspicious parties to justice when they do not respond to Customs, to obtain laboratory reports, assessment reports, etc., to fulfill the conditions imposed by other regulatory agencies, to export the goods when it	Customs investigations unresolved for long time should be identified and concluded expeditiously on priority basis and a specific time frame and effective follow-up methodology should be implemented for the completion of investigations.

in collecting revenue due to the Government, the perishing of seized goods or inability to obtain their real value when later sold, and the discouragement of informants and officers.

has been ordered to be re-exported, to process the disposal of forfeited goods, taking a considerable time to consider appeals, etc. when a case has been filed against a customs investigation /decision, the customs investigation file is not closed until the judgment is received. However, at the end of the customs investigation, action is being taken to issue a departmental order emphasizing the need to complete the investigation within 3 months of the date fixed for the customs investigation.

2.3. Under -utilization of Funds

	Audit Observation	Management Comment	Recommendation
(a)	The Fuel Fund had been established as a Sub-Fund of the Reward Fund with the aim of settling the fuel expenses required for customs investigations and a sum of Rs. 253,489,233 had been credited to the Fund from the Reward Fund during the year under review. However, since the fuel cost incurred for investigation activities was borne from the general vote of expenditure, of the department, no expenditure had been incurred from the Fuel Fund during the period from 2019 to 2025 except for the expenditure of the department of Rs.554,500 incurred in the year 2023. Accordingly, due to insufficient utilization of money of the Fund for the purpose of establishing the Fund, the accumulated balance of the Fund had increased up to Rs.1,454,447,773 by the end of the year under review.	It is agreed with the observation. Although the primary purpose of establishing this Fund was to utilize any excess fuel required for customs prevention activities, if any, and fulfilling the fuel requirements of the naval unit used for customs prevention activities carried out by the Sri Lanka Customs during the LTTE war situation, the balance of this Fund has accumulated due to the lack of excess fuel requirements for customs prevention activities. Accordingly, it was noted to prepare accurate and realistic estimates as far as possible in the future.	The objectives of the Fund should be reviewed again and new objectives should be identified according to the current needs and the funds should be utilized accordingly.

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| (b) | <p>In cases where no money has been received in the form of fines or sales in connection with any investigation, if the Director General of Customs considers it is necessary to award certain reward to the officers who participated in the investigation in recognition of their dedication and service, the 2.5 percent Fund established as a Sub-Fund of the Reward Fund for use in such cases, a sum of Rs.127,020,846 had been credited during the year under review. However, no expenditure had been incurred from the Fund during the year. Accordingly, the accumulated balance of the Fund had increased to Rs.614,780,890 by the end of the year under review.</p> | <p>It is agreed with the observation. Accordingly, it was noted to prepare accurate and realistic estimates as far as possible in the future.</p> | <p>After accurately predicting the expected requirement of the Fund and preparing realistic estimates, action should be taken to allocate money for the Sub-Funds accordingly.</p> |
| (c) | <p>The accumulated balance of sub funds such as the Fuel Fund, Narcotic Fund, 2.5% Fund and Other Reserve Fund at the end of the year under review was Rs.2,707,387,539, out of which Rs.1,080,651,409 or 40 percent were unused for more than 05 years i.e. from the year 2020 and earlier, and Rs.1,232,644,556 or 45 percent were unused for a period of 1 to 5 years. Accordingly, based on the age analysis of the accumulated balances of the Sub-Funds, it was observed that a considerable amount of money was accumulated and maintained without utilizing for a long period.</p> | <p>In accordance with Section 153(2)(b) of the Customs Ordinance, in submitting files for payment of rewards, a certain percentage of the total amount of the reward file is allocated to the relevant Funds and the said money is credited to these Funds and payments are made based on the relevant requests. The balance of such Funds remains accumulated until such a request is received.</p> | <p>Attention should be paid to prepare a formal arrangement in order to utilize the funds that remained unutilized for long period after reviewing the current and future requirement of sub funds.</p> |

3. Accountability and Good Governance

3.1 Budgetary Control

Audit Observation	Management Comment	Recommendation
As per the budget estimates of customs officers' reward fund for the 2025, due to the preparation of budget estimates without proper forecasts and budgeted	It is agreed with the observation. accordingly, it was noted to prepare accurate	Budget estimates should be prepared based on accurate and realistic forecasts and action

data, a sum of Rs.50,000,000 and Rs.250,000,000 respectively had been allocated to incur expenses from the Fuel Fund and 2.5% Reward Fund. However, no expenditure had incurred from these Funds during the year under review. Accordingly, it was observed that the budget estimates had not been prepared based on realistic forecasts.

and realistic estimates as far as possible in the future.

should be taken to utilize budget allocations effectively.