

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Customs Officers' Management and Compensation Fund for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 and 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 the 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 its 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 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 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 preparation of the Financial Statements

1.5.1 Non-compliance with the Sri Lanka Public Sector Accounting Standards

	Non-compliance with reference to particular standard	Management Comment	Recommendation
(a)	Even though the financial statements should be prepared on accrual basis as per paragraph 02 of Sri Lanka Public Sector Accounting Standard No.01, the revenue receivable to the Fund as at 31 December 2025 had not been identified in the financial statements on accrual basis. As per the information submitted to the audit, outstanding penalties and forfeitures recoverable to Sri Lanka Customs from the outside parties as at 31 December 2025 was Rs. 7,152 million and though it had been received as penalties and forfeitures to the Accounts Division of Sri Lanka Customs, the amount was Rs.2, 064 million on which the reward files had not been prepared. Accordingly, Rs.1,843 million which is 20 percent from aggregate Rs.9,216 million entitled to Fund had not been identified in the financial statements as receivable revenue to Fund. As a result of that, the surplus in the statement of financial performance and the current assets in the statement of financial position had been understated by such values.	When receiving the money as the penalties, it is deposited to the general deposit account and it is credited 50 percent to Customs Officer's Reward Fund, 20 percent to Compensation and Management Fund and 30 percent to Government revenue from that, when the investigation file is completed and paid the reward files. Up to that date, such money had remained in general deposit account of Customs. It is recorded as a receipt to Management and Compensation Fund in the event of actually removing from general deposit account and receipt to Management and Compensation Fund.	In compliance with Sri Lanka Public Sector Accounting Standards, the revenue receivable to the Fund should be properly identified on accrual basis and accounted in the financial statements.

- (b) In accordance with the paragraph 65 of Sri Lanka Public Sector Accounting Standards No.07, the useful life of the assets should be reviewed at least at the end of every financial year and if the expected conditions are differ from previous estimates, such changes should be accounted as per Sri Lanka Public Sector Accounting Standard No.03. However, required accounting measures had not been taken having reviewed the useful life of the assets such as weapons, library books, computers and computer accessories, televisions, laboratory equipment, furniture and computer equipment with a cost of Rs.254,775,123 fully depreciated at the end of the year under review.
- It is agreed with the audit observation. It is noted to take action as observed.
- The useful life of the assets should be reviewed annually and the necessary accounting adjustments should be made as per Sri Lanka Public Sector Accounting Standards.

1.5.2. Documentary Evidence not Made Available for Audit

	Item	Amount (Rs.)	Audit evidence not provided	Management Comment	Recommendation
(i)	Weapons, computers, computer accessories, televisions and furniture and office equipment	236,235,192	Fixed asset registers, board of survey reports	It was noted to provide the instructions to relevant officers for the preparation of the documents in the future as required for the verification and vouching the assets.	The fixed asset registers should be maintained in an update manner for verification of existence, security and stewardship of the assets and the board of surveys should be duly conducted and such reports should be submitted to the audit.
(ii)	Welding and fitting assets	20,511,735			

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

Reference to Laws, Rules, Regulations etc	Non-compliance	Management Comment	Recommendation
Financial Regulation 371 of Financial Regulations of Democratic Socialist Republic of Sri Lanka	Even though it should be settled once the completion the adhoc sub imprest activity, it had taken the time	It is agreed with the audit observation. The action had been to make aware the officers of relevant divisions to settle the sub imprests once	It should be complied with the provisions of the Financial Regulations in the

and Public Finance Circular No.01/2020 dated 28 August 2020	range from 11 days to 138 days for the settlement of the advances in a range from Rs.5,600 to Rs.500,000 given at 15 occasions.	the activity on which adhoc sub imprest had obtained had been completed and the officers who had obtained the advances and the instructions had been given to the relevant officers to make aware not to occur these kinds of errors in the future.	payment of advances.
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2. Financial Review

2.1 Financial Result

The financial result of the year under review was a surplus of Rs.3,396,574,389 and the corresponding surplus in the preceding year was Rs.3,346,928,257. Accordingly, a small improvement of Rs.49,646,132 or 1.4 percent of the financial result was observed. The decrease of total expenditure by Rs.4,017,657 and increase of total revenue by Rs.45,628,475 had caused for this improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
As a result of the allocation the money to Fund without accurately planning the specific criteria and future expected and objected expenditure for enhancement of the management skill of the Customs Officers and payment of compensation to the officers, it was observed a tendency of continuous growth of the accumulated balance of Fund. Accordingly, the accumulated balance of Fund which was Rs.15,843 million as at 31 December 2024 had improved by Rs.3,396 million or 21 percent up to Rs.19,239 million as at 31 December 2025. The under-mentioned reasons had basically affected for the continuous improvement of the accumulated balance of Fund also.		

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| <p>(i) Even though the collected revenue of the Fund in the year under review and 05 preceding years was Rs.11,786,494,198, the expenditure incurred from Fund within such period was only Rs.254,995,574 (except depreciation) or 2 percent from the collected Fund and the balance amount had collected to the accumulated balance of Fund.</p> | <p>In terms of the provisions of the Customs Ordinance, the relevant activities had been performed.</p> | <p>Attention should be paid for the preparation of clear criteria for the payment of the compensation from Fund and allocation of money to Fund on realistic estimates.</p> |
| <p>(ii) Due to not taking adequate steps for introduction of the modern technological methods connected to the Artificial Intelligence for control the Customs duty frauds and payment the rewards abundantly for the Customs offences recognized while performing general duties by the officers, it had been credited to Fund equal to 20 percent from that.</p> | <p>Even though the relevant system already has the possibility of usage of Artificial Intelligence for Rapiscan System at any occasion, it had not been implemented due to huge cost to be incurred for that. However, specific talents, knowledge and experiences of the Customs Officers are used for the identification of Customs Duty offences and frauds and the relevant money will be credited this Fund in terms of the provisions of Customs Ordinance and regulations of the Department. It is observed that the rewards are given to the officers and informants as an internationally accepted method for prevention of the Customs Duty frauds or bringing the goods prohibited and restricted into the country.</p> | <p>The action should be taken to systematically introduce Artificial Intelligence including modern technological and data analysis methods for enhancement of the efficiency of identification and control of Customs Duty frauds after considering the cost-benefit.</p> |
| <p>(iii) The measures had not been taken to formally and timely amend the Customs Ordinance and the legal provisions of relevant funds in line with the enforcement of the penalties up to the treble value as compared with the value of the goods and duty which were tried to defraud, non-occurrence of significant decrease in Customs offences and the complexity arisen in exports and imports due to the free economic policies currently prevailed.</p> | <p>It is observed that it had been immensely contributed for the enforcement of the penalties up to treble value of goods for the offence in relation to Customs frauds and enforcement of penalties/forfeitures by disclosing a large number of frauds, performance of the Department and achievement of the revenue targets and it was a reason for increase of the collection of</p> | <p>Attention should be paid to formally and timely amend the Customs Ordinance and the legal provisions for relevant Funds.</p> |

money of the fund and the Government revenue. However, it is observed that the restrictions enforced for utilization of the money of the fund is a basic matter from the matters affected to increase the account balance of fund as per regulations in the extraordinary gazette notification No.792 dated 05.11 1993.

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| <p>(iv) Though providing the funds for payment of the compensations for the disasters faced by Customs Officers in discharging their duties had been identified as a primary objective of the Fund, no any payment of compensation had been reported in relation to such disasters within 13 preceding years.</p> | <p>It is kindly informed that no any compensation requests had received for said disasters within 13 preceding years.</p> | <p>The current requirements and objectives of Fund should be reviewed again and accordingly, the percentages allocated to fund from the penalties and forfeitures should be reviewed again as appropriately.</p> |
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4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Management Comment	Recommendation
It was observed considerable variances in the range from 38 percent to 100 percent of 04 expenditure items out of 07 expenditure items when comparing the actual and budgeted expenditure of Fund in the year under review. Moreover, A variance of 44 percent had existed between the actual and budgeted values of the revenue received from sale of the forfeited articles. Accordingly, it was observed that the budget document had not been used as an effective management and control tool.	It was noted to prepare the estimates in minimizing the variances as far as possible.	The budget estimates should be prepared on accurate and realistic forecasts and the reasons for occurrence of considerable variances between budget and actual data should be formally reviewed.