

Customs Overtime, Cargo Examination Fees & Customs Information and Communication Technology Fund of the Department of Customs - 2025

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Customs Overtime, Cargo Examination Fees & Customs Information and Communication Technology Fund of the Department of Customs for the year ended 31 December 2025 comprising the statement of consolidated financial position as at 31 December 2025 and the statement of consolidated comprehensive income and expenditure 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 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 the Preparation of Financial Statements

1.5.1 Internal Control Over the Preparation of Financial Statements.

Audit Observation	Management Comment	Recommendation
Although the institution should maintain proper books and records regarding its revenue, expenses, assets, and liabilities in terms of the paragraph 27 of Sri Lanka Public Sector Accounting Standard No. 01 as it is required a faithful presentation of effects of transactions, other events and conditions, separate cash books, service revenue ledgers, sales ledgers and overtime debtors' ledgers had not been maintained in relation to the Fund.	Relevant officers had been instructed to maintain ledgers instead of using Excel spreadsheets through computers in due course.	Relevant primary books, records and ledgers should be maintained in a proper manner to identify and record all transactions of the Fund properly.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Since to the fact that the fees of Rs.39,816,451 collected from airlines and shipping companies in the year under review in relation to previous years had been recognized in the financial statements as overtime income of the year under review, the income for the year under review had been overstated by that amount.	The financial structure of this Fund, which is maintained as only part of the main financial statements of the Department of Customs is especially done as a part of the internal reconciliations and internal control of the Department.	Only revenue belonging to the relevant accounting period should be identified correctly and accounted as revenue for that year.
(b) Even though the total amount of information and technology communication fees payable to Customs officers and the Consolidated Fund as at 31 December 2025 was Rs.2,496,000, the information and	An amount of Rs.3,747,000 out of the amount of Rs.4,992,000 payable for the year 2024 had been paid in the year 2025. The remaining	The amounts payable at the end of the year should be accurately identified

- technology communication fees payable had been overstated by Rs.1,248,000 due to that the value had been shown as Rs.3,744,000 in the statement of financial position.
- amount of Rs.1,248,000 has been included in the amount payable for the year 2025.
- and shown in the financial statements.
- (c) Since the total receivables from 07 airlines amounting to Rs.3,088,500 and receivables from an institution that carries out operations to release unaccompanied personal baggage amounting to Rs.1,845,750 in relation to the year under review, have not been accounted the total revenue for the year under review and the aggregated outstanding balance of debtors at the end of the year had been understated by Rs.4,934,250 in the financial statements.
- The above errors have been identified and steps have already been taken to correct them.
- The revenue and all debtor balances for the year should be accurately identified and shown in the financial statements.
- (d) Since the erroneous accounting of Rs.522,000 collected from an airline during the year under review, the debtor balance had been understated by that value. Furthermore, the revenue and debtors' balance for the year under review had been understated by Rs. 852,000 due to the invoice value of Rs.1,447,500 issued to another airline had been recorded as Rs.595,500 in the debtor's ledger.
- Steps have been taken by now to correct the difference of Rs.852,000 caused by understatement of invoice values and a mathematical error.
- Debtor balances should be accurately shown in the financial statements.
- (e) Since an amount of Rs.1,041,000 collected from 03 airlines during the year under review had not been accounted in the ledger, the debtor balance had been overstated by the same value as at the end of the year.
- The relevant receipts had not been recorded in the ledger due to an oversight, and steps have been taken by now to correctly record the relevant receipts and update the debtor balances.
- Debtors balances should be accurately shown in the financial statements.

1.5.3 Unreconciled Control Accounts or Records

Item	Balance As per Financial Statements (Rs.)	Balance as per Corresponding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
Debtors					
-Shipping companies	2,076,000	4,037,568		As pointed out by the audit, instructions had been given to the	Discrepancies in debtors' balances should be identified
- Airlines	1,121,100	-	1,961,568		

1,121,100 relevant officers and action should be taken to resolve them. to formulate methodologies to accurately identify the debtor balance.

1.5.4 Documentary Evidences not Made Available for Audit

Item Available	Amount Rs.	Evidence not Available	Management Comment	Recommendation
Overtime, cargo examination fees & IT and communication fees	1,531,222,936	Fingerprint records confirming reporting for duty	Customs overtime of the Department of Customs is paid based on the service fees charged from external parties in accordance with the provisions of Section 1.1 of Chapter IX on Fees of the Establishments Code. Although approval had been given to calculate and pay overtime rates as a fraction of 240 of the current monthly combined salary by the letter No. Mu/1/Customs/47/3 of the Secretary to the Ministry of Finance dated 09.02.2004, payments are currently being made at a rate lower than those rates.	Fingerprint machines should be used by Customs officers in terms of the recommendations made by the Committee on Public Accounts and Public Administration Circulars and those reports should be submitted to audit to verify the annual expenditure.

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

Reference to Laws, Rules, Regulations etc.	Non-Compliance	Management Comment	Recommendation
(a) Extra Ordinary Gazette Notification of Democratic Socialist Republic of Sri Lanka No. 1520/17 dated 26 October 2007.	Although there should be amounts of payments and a procedure approved by the Secretary of the Ministry of Finance for making payments to Customs officers from the Customs Overtime and Cargo examination fees Account, an amount of Rs.1,518,243,736 had been paid for officers as customs overtime and cargo	Approval has been obtained from the Secretary of the Ministry of Finance vide letter MF1/4/CUS/474 dated 09.11.2010 for payment to Customs officers from the Customs Overtime and Cargo	Steps should be taken to re-obtain the relevant approvals in accordance with the provisions of the prevailing Gazette Notification.

examination fees during the examination Fees
year under review without Account.
getting approval for such
payment amounts and
procedures.

- (b) Departmental Orders No. 855 dated 01 March 2013, No. 1247 dated 01 October 2018 and No. 1664 dated 25 September 2024. Although the Director General of Customs had approved the increase of the hourly overtime rate approved in year 2004 by 45 percent, 50 percent and 50 percent respectively on three occasions, subject to the final recommendation of the Overtime Committee, no evidence had been submitted to the audit that the final recommendations of the Overtime Committee had been received or that the approval of the Ministry of Finance had been received. The increase in overtime rates had been made through Internal Orders Nos. 855, 1274 and 1664 with the approval of the Secretary to the Ministry of Finance dated 09.02.2004 and it had approved overtime payment based on the current salary. Accordingly, although the amount of overtime had been revised and payments had been made from time to time since year 2004, payments had never been made in excess of the approval given by the Ministry of Finance in year 2004. When revising overtime rates, the recommendations of the relevant Overtime Committee and the approval of the Ministry of Finance should be obtained.

2. Financial Review

2.1 Financial Result

The financial result of the year under review amounted to a deficit of Rs. 414,814,532 and the corresponding deficit in the preceding year amounted to Rs. 167,004,158. Therefore, a deterioration amounting to Rs. 247,810,374 of the financial result was observed. The main reason for the deterioration is the increase in payment of Overtime by Rs. 451,682,462 in the year under review compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although a group of 9 to 77 officers from 5 divisions of Sri Lanka Customs had signed the “Customs 221” overtime register during the 10 weekend holidays in December 2025 and received overtime	Customs overtime of the Department of Customs is paid based on the service fees charged from external parties in accordance with the	Existing internal control systems regarding overtime payment should be strengthened and

allowances stating that they had worked a total of 18,225 hours of overtime during the sample audit conducted regarding overtime work by officers of Customs and other services, it was observed during the inspection of the key handover and acceptance register that those sections had not been opened for official duties on those days. Furthermore, although it had been recorded in the “Customs 221” overtime register that officers of those divisions had engaged in overtime duty from 4.45 p.m. to 8.00 a.m. the next day during the period from 15 to 19 December 2025, it was confirmed that the relevant offices had been closed and the keys had been handed over between 4.30 pm and 9.45 pm according to the key handover and acceptance register.

provisions of Section 1.1 of Chapter IX on Fees of the Establishments Code and the rates applicable to overtime pay in the Department of Sri Lanka Customs are currently being paid at a rate lower than the rates approved by the Secretary of the Ministry of Finance.

installation of fingerprint machines should be expedited to verify arrival and departure.

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| <p>(b) Even though it is required to attend to work before 6:00 a.m. on weekdays and before 9:00 a.m. on weekends and public holidays in order to be entitled to customs cargo examination fees in terms of the Departmental Order No. 1140 dated 27 February 2017, an amount of Rs. 3,674,877,847 had been paid as cargo examination fees from year 2012 to 2025 without ascertaining or in accordance with the existing circulars regarding the arrival/departure of Sri Lanka Customs staff.</p> | <p>The amount paid is properly monitored as per the Customs Form 221 and the payment is made only after confirming the accuracy of the value recommended and approved by the relevant responsible officers.</p> | <p>Immediate attention should be paid for the installation of fingerprint machines to accurately verify the arrival and departure of customs officers.</p> |
| <p>(c) The total outstanding balance of the Overtime Fund as at 31 December 2025 was Rs.89,429,545, and out of that it was observed that the total aggregated outstanding balances of Rs.9,582,100 from 17 shipping companies and 18 airlines remained uncollected from 2019 to the end of the year under review. Accordingly, without a formal assessment of the recoverability of the outstanding balances, the recovery of which has been uncertain for a long time, and without following an acceptable accounting policy, only 03 percent of the total outstanding balances at</p> | <p>An amount of Rs.2,209,425 out of the outstanding balance of Rs.9,582,100 for the period from 2019 to 2024 had been recovered by the date of replying to the audit query (05.06.2026). Furthermore, doubtful debt had been estimated based on the accounting policy disclosed in the financial statements based on the total outstanding balance by the end of year 2025 based on the debtor age analysis.</p> | <p>Steps should be taken promptly to recover outstanding debtor balances that have been outstanding for a long period of time, and a formal assessment of the recoverability of debtors should be carried out and adequate doubtful debt provisions</p> |

the end of the year under review i.e. Rs.2,682,886 had only been provided as doubtful debts.

should be made accordingly.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
Although 04 fingerprint machines were installed in 2020 at a cost of Rs. 594,960 in terms of the directive that fingerprint machines should be used to record the arrival and departure of all officers of the Department of Customs given at the meeting of the Committee on Public Accounts held on 07 March 2019 regarding the Customs Department, it was observed that the machines had been underutilized as they had been idle even by end of the year under review. Furthermore, the amount of Rs.107,706 spent on updating the software of those machines had also become an expense that did not yield the expected outcomes.	Arrangements had already been initiated to install fingerprint machines to record the arrival and departure of officers at the Customs and attention has also been focused on a practical solution suitable for officers assigned to field duties where it is difficult to record arrival and departure using fingerprint machines.	Fingerprint machines should be used by Customs officers as per the recommendations made by the Public Accounts Committees held on 07 March 2019 and thereafter.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Management Comment	Recommendation
It was observed that there was an unfavorable variation amounting to Rs. 408,465,012 or 21 percent compared to the estimated revenue due to the actual revenue was amounting to Rs.1,525,620,362 although the estimated total revenue of the Fund for the year under review was Rs.1,934,085,374. Although the revenue from cargo examination fees and customs information and technology communication fees exceeded the estimated revenue, the overall unfavorable variation was mainly due to a decrease of 30 percent or Rs.485,668,247 in customs overtime revenue as compared to the estimated revenue.	It was observed that the reason for this was the negative impact of quantitative and qualitative factors such as ships not arriving as expected, limited aircraft arrivals due to climatic and weather factors, and restrictions on the import and export of goods due to global fluctuations.	Action should be taken to prepare accurate and realistic estimates as much as possible and to control expenses accordingly.