

Head 247 – Sri Lanka Customs -2024

1. Financial Statements

1.1 Qualified Opinion

Head 247 - The audit of the financial statements 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 financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154 (1) 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. The Summary Report containing my comments and observations on the Financial Statements of the Sri Lanka Customs was issued to the Accounting Officer on 30 May 2025 in terms of Section 11(1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report related to the Department was issued to the Accounting Officer on 11 July 2025 in terms of Section 11(2) of the Audit Act. This Report will be presented to the Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements of the Sri Lanka Customs for the year ended 31 December 2024 give a true and fair view of the financial position, financial performance and cash flows, all materialities consistent with the basis for preparing financial statements mentioned in note (1) related to the financial statements.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Emphasis of the Matter – Basis of preparing Financial Statements

The attention is drawn to the note 1 related to the financial statement which describe the basis of preparing these financial statements. The financial statements have been prepared as per the Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 amended on 21 February 2025 for the requirement of the Sri Lanka Customs, General Treasury and the Parliament. Consequently, this financial statement may not be suitable for other objectives. My report is only for the use of the Sri Lanka Customs, General Treasury and the Parliament. My opinion on this matter is not modified.

1.4 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is responsible for preparation of financial statements that give a true and fair view on all the materialities in accordance with the Financial Regulation 150, 151 and the State Accounts Guideline No. 06/2024 dated 16 December 2024 amended on 21 February

2025 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable the preparation of annual and periodic financial statements.

In terms of sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make my alterations as required for such systems to be effectively carried out.

1.5 Auditor's Responsibility for the Audit of 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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and implemented to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluated the 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.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Revenue Receipts

	Audit Observation	Comments of the Accounting Officer	Recommendation
(I)	Due to the inability to identify the revenue codes to which the direct banking transactions made by various parties were related, the debit and credit balances of Rs. 18,785,730,933 and Rs. 7,772,069,824 respectively at the year-end of the revenue control account which was used to temporarily record the revenue until it was recognized, had not been correctly identified and had been recognized as cash flows generated from operating activities and cash flows spent on operating activities in the cash flow statement. These values had not been identified under the relevant revenue codes in the consolidated balance sheet and had been presented as miscellaneous receipts and miscellaneous payments.	The revenue control account mentioned in the audit report is the Customs Financial Control Account. The year-end debit and credit balances in above control account represent the cash flows generated under operating activities. Therefore, it has been presented under operating activities in the cash flow statement.	A specific methodology should be established to identify bank deposits, and financial statements should be prepared after analyzing all bank deposits made during the year and identifying income and expenses.
(II)	Although there was no balance due or payable from the Ceylon Petroleum Corporation as per the arrears of revenue relating to the Customs Department, mentioned in ACA 1(i) as per the accounts of the Petroleum Corporation as at the end of the year under review, the amount due to the Customs had been represented as Rs. 32,072,136,585 and the amount receivable from the Customs had been represented as Rs. 1,239,333,736.	The details regarding arrears of revenue related to the Customs Department are submitted under Form ACA 1(i).	A specific accounting system should be established so that the revenue received by the Customs Department, arrears of revenue and the revenue related to the year can be properly identified.

(b) Non-revenue receipts.

Audit Observation	Comments of the Accounting Officer	Recommendation
As the penalties and forfeitures imposed on various parties in relation to the Number of 184 completed customs investigations, amounting to Rs. 4,790,470,462, had not been recovered as of December 31, 2024, the 30 percent amount due to the General Treasury from the said penalties and forfeitures, amounting to Rs. 1,437,141,139, had also remained outstanding in terms of Section 153 (2) (a) of the Customs Ordinance.	Written notices have been sent to the relevant parties to recover penalties and forfeitures related to customs investigations that have been completed, and legal action has been taken against institutions that fail to respond in this regard.	Necessary steps should be taken promptly to recover the amounts due in accordance with the penalties and forfeitures imposed by the customs investigations that have been completed, without delay, and legal action should be taken without delay in the case of balances that are not in compliance with the payment.

(c) Reconciliation statement on the advance account for government official

Audit Observation	Comments of the Accounting Officer	Recommendation
There had been discovered discrepancy of Rs. 426,574 between the credit balance shown in the Advance "B" Account and the credit balance shown in the credit control account (C.C.10 Register) in respect of 10 officers and the credit balance of Rs. 3,762,258 shown in the Advance "B" Account had not been included in the credit control account (C.C.10 Register) in respect of 26 officers.	The discrepancy of Rs. 426,574/- between the balance shown in the Advance "B" Account and the balance as per the credit control account (CC 10 Register) in respect of 10 officers is due to errors made while copying the credit control account.	An accounting system and control system should be established and maintained to ensure proper and complete accounting by reconciling the credit balances shown in the credit control account with the credit balances shown in the Advance "B" account.

(d) liquidation advance Accounts.

Audit Observation	Comments of the Accounting Officer	Recommendation
Advances of Rs. 6,462,337, which were granted 05 years ago from the advance account for Seized and Confiscated Goods (S.C.G. Account) to meet the expenses required for	The advances granted from the S.C.G. Account cannot be settled until the relevant investigations are completed. Furthermore, the balance as at	Procedures should be established to limit the granting of advances to exceptional circumstances and to

216 investigations conducted by 13 different divisions of the Customs, had not been settled by the end of the year under review due to delay in resolving the investigations. Although the advances granted should be settled promptly after the completion of the investigations, in 11 cases, advances of Rs. 1,122,171, which were granted from the said account, had not been settled even after the completion of the investigations.

31.12.2024 is ensure that advances Rs.2,524,009.20 but not are settled promptly Rs.6,462,337 as stated in the upon completion of the audit query. The relevant work for which the officers have been instructed advance was obtained, to settle the advances after the whether or not the investigations are completed investigation is in the future. completed.

(e) Property, plant and equipment

Audit Observation	Comments of the Accounting Officer	Recommendation
Although the value of lands and buildings in non-financial assets as of 31 December 2024 had been stated as Rs. 11,402,424,218, the value was understated due to the fact that the value of 05 plots of land and the buildings located on them in Trincomalee and Jaffna had not been assessed and accounted.	Necessary actions are already underway through the relevant Divisional Secretariats to acquire the 05 plots of land located in Trincomalee and Jaffna, and once the acquisition process is complete, steps will be taken to assess and account for them.	All lands and buildings owned by Customs should be valued and accounted, as fair value should be included as far as possible when preparing financial statements.

(f) Impress balance

Audit Observation	Comments of the Accounting Officer	Recommendation
The expenditure incurred by the reporting institution under other heads and the credit made by the reporting institution to the Advance "B" Account under other heads in the Statement of Impress Adjustment (ACA-7) had been understated by Rs.316,674,095 and Rs.10,406,781 respectively.	The amount shown in the consolidated trail balance as expenditure incurred by the institutions reporting under other heads as per ACA-7 is Rs. 8,332,011,629/-. The amount shown in the consolidated trail balance as credit to the Advance "B" account by the institution reporting under other heads is Rs. 26,754,157/- as shown in the ACA-7 and is correct as per the consolidated trail balance.	An accounting system should be developed to ensure that the correct values are included in the financial statements.

(g) Cash Flow

Audit Observation	Comments of the Accounting Officer	Recommendation
The net cash flow from operating activities was erroneously recorded at that value due to the misrepresentation of miscellaneous receipts of Rs 2,047,737 in the consolidated balance sheet as cash flow from operating activities in the cash flow statement.	The amount of Rs. 2,047,737 has been credited to the consolidated trial balance through the journal entries recorded to correct the financial subject of Expenditure Head 2103 during the transfer of expenditure heads for imports made by the Department of Fisheries and Aquatic Resources. Therefore, it has been recorded as an amount generated under operating activities in the cash flow statement.	An accounting system should be developed that ensures that accurate values are included in the financial statements.

2. Report on other legal requirements

I hereby declare the followings in accordance with Section 6(1)(d) of the National Audit Act, No. 19 of 2018:

- (a) That the financial statements are consistent with the previous year,
- (b) Following my recommendations on the financial statements for the previous year, had not been implemented.

Paragraph Reference in the Previous Year's Report	Recommendation which is Not Implemented	Paragraph Reference in this Report
1.6.1 (a) (iii)	Although the value of lands and buildings in non-financial assets as of 31 December 2024 had been stated as Rs. 11,402,424,218, the value was understated due to the fact that the value of 05 plots of land and the buildings located on them in Trincomalee and Jaffna had not been assessed and accounted.	1.6.1 (e) (iii)

3. Financial Review

3.1 Revenue Management

	Audit Observation	Comments of the Accounting Officer	Recommendation
(a)	There had been recorded less - variance ranging from 3 percent to 36 percent between the estimated income and the actual income for the year under review in relation to income code 4 and an over-variance ranging from 21 percent to 447 percent in relation to income code 7.	The revenue of the Customs Department is determined based on the import and export volumes of that year. Accordingly, such variations may occur between the estimated revenue and the actual revenue.	Estimates should be prepared prudently with proper forecasting.
(b)	When comparing the income of the year under review with the income of the previous year, there had been a significant decrease in income in relation to 3 income codes, which ranged from 10 percent to 75 percent.	the targets which were given, stated as a revenue estimates and may vary depending on economic changes.	Attention should be paid to methods that can increase income.
(c)	From the import tax dues of Rs. 22,044,131,527, which is 38 percent of total outstanding tax revenue, only 0.007 percent as about Rs. 1,500,438, had been collected during the year under review.	Agreed, with the observation.	Necessary measures should be taken to collect the revenue due to the government without delay.
(d)	Although special commodity taxes amounting Rs. 15,236,676,819 represented about 26 percent as of the total outstanding tax revenue, no amount had been recovered from them in the last 4 years.	Agreed, with the observation.	Necessary measures should be taken to collect the revenue due to the government without delay.
(e)	Although Port and Airport Development Taxes, which constitute about 17 percent of the total arrears of tax revenue, amount to Rs. 9,943,802,984, of which 99.9 percent, Rs. 9,945,317,734, is arrears of revenue that had been outstanding over than 4 years, of which only Rs. 1,514,750 had been recovered	Agreed, with the observation.	Necessary measures should be taken to collect the revenue due to the government without delay.

during the year.

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| (f) | When analyzing the balance of the initial arrears of revenue of Rs. 58,478,974,134 in the year under review, the total arrears collected during the year had been Rs. 771,450,220, the recovery of arrears had been only a very small percentage of 1.32 percent. | Agreed, with the observation. | Necessary measures should be taken to collect the revenue due to the government without delay. |
| (g) | According to the arrears revenue report prepared in accordance with the Public Fiscal Policy Department Circular No. 01/2015 and dated July 20, 2015, Rs. 57,721,517,615 had due to Customs from various ministries and departments of the government, including the Presidential Secretariat, as at 31 December 2024, and all these arrears are balances that had been due to Customs from before the year 2020. The Director General of Customs had sought approval from the Secretary, Ministry of Finance, Economic Development, Policy Making, Planning and Tourism on November 07, 2024, to waive that revenue in terms of Financial Regulation 113. | The uncollectible customs duty revenue of Rs. 57,721,517,615/- as reported in the audit inquiry had been reported for the financial years 2020 or earlier. To clear this amount, the respective government institutions will have to request additional allocations from the National Budget Department. As a result, the government expenditure will increase. | Necessary measures should be taken to collect the revenue due to the government without delay. |

3.2 Expenditure Management

3.2.1 Recurrent Expenses

Audit Observation	Comments of the Accounting Officer	Recommendation
Provisions had been remained as savings in the range of 6 percent to 100 percent as a percentage of the net allocation in the 13 recurrent expenditure codes.	The remaining provisions for expenditure items 1101 and 1505 are due to the fact that the expenditure requirements have not been met as estimated. The relevant expenses for expenditure item 1102 have been borne by the Customs Officers' Management Compensation Fund. Provisions have been left over due to the lack of need to provide transport services as predicted in expenditure item 1401. Provisions have been left over in	Estimates should be prepared prudently with proper forecasting.

expenditure item 1506 due to the failure of the government to provide loans as expected.

3.2.2 Capital Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
As a percentage of the net allocation of 04 capital expenditure subjects, allocations ranging from 25 percent to 66 percent had been left due to not making proper forecasts and preparing cost estimates. Due to this, the opportunity to utilize these provisions for essential sectors had been lost.	Accounting for software maintenance and repairs has been resulted in a savings of provisions in expenditure code 1304.	Estimates should be prepared prudently with proper forecasting.

3.3 Non-compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Accounting Officer	Recommendation
(i) Customs Ordinance No. 17 of 1869 Section 84 (a) (3)	Vehicles assembled in a bonded warehouse may be eligible for a 70 percent excise duty concession on the recommendation of the Minister of Industries if they add not less than 30 percent value locally. During the year under review, 7 such companies had requested the 70 percent excise duty concession on the recommendation of the Minister of Industries. However, the Customs had taken steps to grant the tax concession without properly calculating the cost and considering the relevant 30 percent local value addition as per the provisions of the Customs Ordinance. In the year 2024, 7 bonded	Agree with the audit. No advice from the Attorney General has been received so far.	The excise duty should be calculated correctly in accordance with the provisions of the Customs Ordinance and the recommendations of the Minister of Industries.

warehouse-owning manufacturing companies had assembled 538 motor cars and 53,381 motorcycles in the warehouse and released them to the local market. According to the calculations made by the audit, although the excise duty to be collected on those vehicles should have been Rs. 10,744,332,600, the Customs had been collected only Rs.3,356,784,548, resulting in a loss of excise duty revenue of Rs. 7,387,548,052.

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| (ii) Customs Ordinance No. 17 of 1869 Section 153 (2) (b) | Although the approval of the Minister of Finance should be obtained for the distribution of Reward money from the Reward fund and an appropriate methodology should be prepared, as per the Departmental Order No. PL118 dated 28th January 1988, which was prepared contrary to above provisions, an amount of Rs. 25,244,792,239 had been distributed to officers and Rs. 4,554,073,737 to informants from the prize fund during the 13 years from 2012 to 2024. | Each year, an expenditure estimate is prepared for the distribution of Reward money from the Reward fund, the personal approval of the Minister of Finance has obtained, and the relevant money has paid. | An appropriate legal mechanism should be developed with the consent of the Minister of Finance in accordance with the relevant section of the Customs Ordinance. |
| (iii) Section 162 | Although the perishable goods should be sold as soon as possible after being taken over by the customs, by 31 December 2024, due to various reasons, the goods in 867 containers kept in different yards of the customs had not been disposed of in accordance with the referred article so that they could be taken for human consumption. | The number of containers referred to the Central Disposal Division for disposal under Section 162 is about 252 as at 31 December 2024. Of these, 75 containers have been offered for sale through tenders and another 28 have been retained due to litigation. The | A proper system should be developed to expedite the customs clearance process for perishable goods and to remove the said goods after that process. |

Central Disposal Division is currently carrying out the destruction process for only 149 containers.

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| (iv) Establishments Code Sub-paragraph 4:6 of Chapter XXIV | Although the balances of debts due to the government from deceased officers should be deducted from any amount due to their heirs and if they cannot be recovered from the surety and heirs, action should be taken as per the instructions of the Attorney General without delay. however, the actions had not been taken in lining with the said provisions in respect of the balances of debts of Rs. 1,262,438 due to 9 deceased officers as at the end of the year under review. the outstanding balances had been stated as a balance of Rs. 119,700 due to one officer whose period of service has elapsed from 10 to 20 years, a balance of Rs. 96,990 due to 2 officers whose period of service has elapsed from 5 to 10 years and a balance of Rs. 1,045,748 due to 6 officers whose period of service has elapsed up to 5 years. | Explanations regarding the debt balance of Rs. 1,262,438 due from 9 deceased officers have been submitted in Annexure No. 02. | The provisions of the Establishments Code should be complied with. |
| (v) F.R 102 and 110 | By customs investigations conducted in relation to a consignment of cigarettes shipped from Singapore under the transshipment method by a foreign private company, the consignment of cigarettes had been confiscated and later auctioned for Rs. 5,901,750. However, the Customs was found guilty in the case filed by the importer | The final report has been given by the preliminary investigation committee and further action is to be taken accordingly. | According to the provisions of the Establishment Code, the preliminary investigations should be completed promptly and formal disciplinary measures should be taken and the loss incurred to the |

against the said confiscation and had to pay compensation of Rs. 69,451,809 to the importer. A preliminary inquiry committee had been appointed on 11 May 2023 against the officers responsible for the above wrong decision and its report had to be submitted within two months, but as at 20 April 2025, the said report had not been submitted and action had not been taken to recover the amount from the officers responsible for the wrong decision.

government should be charged to the relevant officials.

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| (vi) F.R. 570/571 | Although all deposits not claimed within 02 years from the date of deposit should be considered as lapsed deposits and credited to the State Revenue as per the provisions of F.R. 571(3), action had not been taken to credit the tender deposits of Rs. 13,620,000 which had exceeded 2 years to the State Revenue by the end of the year under review. | Deposits older than two years are credited to government revenue in the year following the completion of two years. In the year 2024, deposits older than two years were credited to government revenue. Accordingly, deposits older than two years in the year 2022 will be credited to government revenue in the year 2025. However, as mentioned by the audit, deposits older than two years have been recorded for crediting to government revenue. | The actions should be made in accordance with the provisions of Monetary Regulations. |
| (vi) Recommendation of the Public Accounts Committee Meeting held on | Although all civil servants are required to use the fingerprint machine to record their arrival and departure, the sum of Rs.3,395,867,121 rupees had been paid for 2335 Sri Lanka Customs | It was observed that the use of fingerprint machines for entry and exit of officers of the Customs Department is not practical given the | Should be adhered with the Circular provisions. |

24.01.202 officers in the year 2024 nature of their
4 and without ensuring attendance service. Accordingly,
Circular through fingerprinting it can be state that
No. machines. It was included Rs. steps have been taken
3/2017 2,308,694,777 for salaries, to use the Common
dated 19 allowances, overtime, holiday Form 18 under the
April 2017 pay and incentives and close supervision of
Rs.1,087,172,344 for staff officers in all
overtime allowances from the divisions of the
Customs Overtime Shipping Customs Department
and Cargo Inspection Fund to record the entry
and IT Communication Fund. and exit of officers.
Also, overtime allowances of
up to 24 hours per day were
paid to these employees
without proper verification of
arrivals and departures.

3.4 Informal Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
(i) An importer who was subject to penalties for importing brown sugar that was detected as white sugar had been fined Rs. 500,000 and forfeited Rs. 189,293,778 by the Customs and the importer had agreed to the said penalty and the goods had been released from Customs custody on a bank guarantee of Rs. 190,000,000 without confiscation. The importer had submitted an appeal to the Minister regarding the said penalty and the Minister had rejected the request. However, the Additional Director General of the Department of Trade and Investment Policy had later informed the Director General of Customs that the Minister had decided to reduce the penalty imposed by Rs. 30 million. But such a approval given by the Minister was not presented to the audit. The total loss of state	It has been observed that the reduction of the amount of forfeiture from Rs. 189,293,778/- to Rs. 160,000,000/- was made in accordance with a legal decision taken by the Hon. Minister of Finance. Customs has acted upon the notification of the Minister of Finance's direction informed by the Additional Director General of the Department of Trade and Investment Policy under the letterhead of the Department of Trade and Investment Policy and the Ministry of Monetary, Economic Stabilization and National Policies.	When mitigating a penalty, action should be taken in accordance with the Customs Ordinance.

revenue to the government due to this relaxation was Rs. 62,505,801 and this importer had previously been fined on 23 occasions.

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| <p>(ii) A Customs investigation was conducted under No. PCAD/2024/00043/CCR/00171 regarding the evasion of import duty on gold ornaments worth Rs. 753,210,479 imported from abroad by a well-known company engaged in the import and sale of jewelry. The tax payable by the company to the Customs was Rs. 219,817,086 and although the goods could have been confiscated and forfeited three times the value of the goods in terms of sections 107 and 129 of the Customs Ordinance, at the end of the investigation, it was later reduced to Rs. 190,000,000 following a forfeiture of Rs. 2,919,082,695. Due to this reduction, the importer had been able to release the goods by paying Rs. 29,817,086 less than the tax payable.</p> | <p>Answers will be submitted as soon as the file is received.</p> | <p>Illegal activities should be controlled by imposing a penalty not less than the amount of tax to be collected in accordance with the Customs Ordinance.</p> |
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4. Operational Review

4.1 Vision and mission

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) As one of the strategies to prevent unnecessary revenue leakages, the budget proposals for the year 2024 had allocated Rs. 100 million for “establishing a risk management software system within Customs”, but by the end of the year, no work had been done on it except for selecting a bidder.	Customs agree with the facts mentioned in the report of the Auditor General. The first Technical Evaluation Committee meeting was held and the report was prepared on 31 March 2024 and it was proposed to appoint two external members to the Technical Evaluation Committee. The time taken for this was 02 months. Thereafter, a letter was sent to the University of Colombo on 31 May 2024 to nominate a suitable person for the Technical Evaluation	The provisions allocated in the budget should be utilized in the relevant year and the proposed tasks should be completed without delay.

Committee and as no response was received, a note was entered in the file on 31 July 2024 seeking advice to select another person.

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| <p>(b) The Director General had stated in the Committee on Public Accounts held on 09 May 2024 that, in cases where goods were imported undervalued, the remaining tax due would be credited to the Consolidated Fund of the Government. Although, such cases of undervaluation were also converted into customs investigations and penalties were imposed and 50 percent of the proceeds as rewards had been paid for officers were involved. In 1858 cases where it was revealed that “goods had been undervalued”, after customs investigations, only 30 percent of the proceeds had been credited to the State Revenue from forfeited and penalties were imposed.</p> | <p>Sri Lanka Customs, when assessing the value of goods, operates in two ways, according to Schedule “E” of the Customs Ordinance and according to Section 52.</p> | <p>As stated in the Committee on Accounts, in cases where goods are imported at an undervalue, the remaining tax due should be recovered.</p> |
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4.2 Failure to achieve the desired level of output

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although 128 requests for destruction of goods had been submitted to the Central Destruction Division, which is responsible for the destruction of unsaleable goods, action had been taken to destroy the goods in relation to only 33 of these requests.	Agree with audit observations. The shortage of officers in the division has also contributed to this. Necessary steps have been taken to expedite the relevant destruction process.	The destruction of unsaleable goods should be carried out without delay.
(b) The Customs had procured its container scanning services from a company called Rapis Scan System Private Limited under the Build Own & Operate (BOO) procurement method and in 2021, had acquired full ownership of the above system by paying USD 21,590,008 to the same company.	Discussions have been held with officials of the company to investigate the technical problems in this system, and a committee has been appointed to obtain the necessary suggestions and recommendations in this regard.	Modern technological methods should be used to identify and prevent customs misconduct.

Although full X-ray scanning was expected for the customs clearance process, due to its non-implementation, the expected plans of identifying items hidden among declared goods, reducing the number of false declarations, and minimizing the import of prohibited and illegal goods had not been achieved.

4.3 Failure to achieve the desired level of outcome

Audit Observation	Comments of the Accounting Officer	Recommendation
Although the tender system was used as one of the methods for disposing of seized materials by Customs, despite several tenders being held for sale, 55 containers containing used clothing, vehicle spare parts and mattresses had been held unsold at Gray Line I, Gray Line II and Asian Container Yards respectively, due to the lack of a proper price.	In December 2024, a special committee was appointed to re-examine and re-evaluate long-standing unsold items based on their current condition, which enabled a large number of long-standing unsold items to be sold.	Steps should be taken to provide wide publicity about customs tender sales.

4.4 Assets Management

Audit Observation	Comments of the Accounting Officer	Recommendation
The Customs has 110 vehicles of 06 types such as cars, vans, cabs, etc., but 25 of them were not in running condition. Some of them had not been used for operation withing 29 months. According to the physical inspection carried out by the audit on 20 March 2025, 20 vehicles were parked in the port premises without any cover and according to the verification carried out by the Supply and Services Division, those vehicles had been parked at that location without being used for a period ranging from 14 days to 12 years. Although a majority of these	This matter will be investigated and necessary action will be taken.	Assets should be utilized with maximum productivity and efficiency.

vehicles were in need of repair, the necessary work had not been done expeditiously.

4.5 Losses and Damages

Audit Observation	Comments of the Accounting Officer	Recommendation
In 27 cases where imported goods were released on Rs.100,172,482 bank guarantees in preventive measures, the recovery of penalties and forfeitures due to the failure to complete the inspections within the validity period of the guarantee or to extend the validity period of the bank guarantees in conjunction with the inspection period had become challenging. Although a period of 1 ½ to 12 years had elapsed since the commencement of the said inspections as of the date of the year under review, disciplinary action had not been taken against the officers who had not completed the inspections or kept the bank guarantees valid until the completion of the inspections.	The programs prepared by the ASYCUDA system of this department were used to enter the expiry dates and other relevant information of the above-mentioned bank guarantees, and it was later discovered that the previous Reminder Option in that program was inactive within the period recommended by this audit inquiry. the Department's Information and Communication Technology Division was informed as soon as it was discovered.	A proper system should be established to identify expired and fake bank guarantees.

4.6 Uneconomical Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The containers detained by Customs for a long time included 60 containers containing auto parts, 57 containers containing plastic materials, 36 containers containing wood and timber, 301 containers containing food items, 24 containers containing cigarettes and tobacco products, 34 containers containing betel nuts and 49 containers containing various mixed items. the containers containing food items included 20 containers containing dried chilies, 11 containers containing	Under the 120-day expedited disposal process introduced by the Customs Department for the year 2025, efforts are being made to sell salable items and destroy perishable items in containers that have been stored for a long time.	Urgent action should be taken regarding the detained containers.

potatoes, 9 containers containing bread products, 107 containers containing rice and 54 containers containing tea, although, perishable goods had not been dealt with expeditiously.

- (b) Customs had parked 332 The seized vehicles should be disposed of promptly in accordance with the Customs Act. vehicles on land acquired from a private company in Mattakkuliya by paying a monthly rent of Rs. 4,650,000 and 108 The seized vehicles should be disposed of promptly in accordance with the Customs Act. vehicles on the Ruhunu Magampura port premises. Most of these vehicles had deteriorated and become unfit for driving due to being parked in yards for a long time. However, in accordance with Section 109 of the Customs Ordinance Act, this situation had arisen when there was a possibility to sell the goods by auction or tender after a public notice, and only the private company in Mattakkuliya area had paid a rent of Rs.55,800,000 during the year.
- Among these vehicles, the disposal of some of them has been delayed due to ongoing customs investigations, court proceedings, and delay in payment of port fees. Furthermore, the Attorney General's Department has been consulted for 11 vehicles scheduled for release for government purposes under Section 109 of the Customs Ordinance, and further action will be taken accordingly.
- The seized vehicles should be disposed of promptly in accordance with the Customs Act.

4.7 Management weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to the Central Case Register, 37,685 cases were registered from 2015 to 2024, of which 28,166 cases were resolved and 9,519 cases were pending. This were included 1,523 cases registered within a year, 4,958 cases more than 1 year but less than 5 years and 3,038 cases more than 5 years.	There are various reasons for delay in investigation resolution.	Efforts should be made to complete the investigations promptly.
(b) According to the report of the preliminary investigation conducted in relation to the Chief Inspector of Customs and the Customs Controller, a year had passed since the charge sheets were handed over to the two officers in connection with the removal of 45	Agree with audit observations. Mr. H.S. Wijithaweera, who was the accused in the formal disciplinary investigation regarding the illegal discharge of cigarettes from the P.Trans Duty Free Shop located within the	Disciplinary action against officers should be taken impartially and without delay.

cartons of illegal cigarettes (each carton contains 200 cigarettes) from the Sea Trans duty-free shopping complex.

However, it was later revealed that the Director of Customs (Prevention) had not formally handed over the charge sheet to the accused Customs Controller and disciplinary action had not been taken against the said Director of Customs, considering it as “violation of the provisions of the Establishments Code or deliberate or negligent disregard or evasion of the provisions of the Establishments Code” which falls under Section 15 of the Offences Committable by Public Officers in the First Schedule to the Establishments Code.

According to the charge sheet handed over on 19.10.2020, the two above mentioned Customs officers had committed offences falling under the “First Schedule” relating to offences that can be committed by public officers under Category II of the Establishments Code, but it had been incorrectly classified as “Offences falling under the Second Schedule”. After identifying the shortcomings in the charge sheet issued, a revised charge sheet was issued to these two officers on 29.11.2023 and a single-member tribunal was appointed to conduct formal disciplinary investigations, but the investigations had not been completed by end of the year under review.

Colombo Port premises, has been given disciplinary orders on 30.01.2025 and the formal disciplinary investigation has been completed. the disciplinary investigation of Mr. D.M.A.S. Herath, the other accused involved in the above incident, will be further conducted by Mr. H.L. Thisera, who is acting as the Single Judge. the steps have been taken to expedite the investigations by sending reminder letters to the Inquiry Tribunal regarding the formal disciplinary investigations and checking the progress through telephone calls.

- (c) Due to customs investigations, 80 containers whose location could not be identified and which were detained in various yards, 29 containers whose reason for detention could not be explained, 08 containers whose detention time could not be found and 61 containers whose contents were not identified had been detained without investigation.

Steps have been taken to notify the relevant departments to resolve the issues related to these containers.

An up-to-date and accurate information system should be maintained regarding detained containers.

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| <p>(d) The Director General of Customs had complained to the Commission to Investigate Allegations of Bribery or Corruption regarding a financial fraud committed by an Assistant Superintendent of Customs in the year 2020 and a preliminary investigation committee had been appointed following an inquiry by the Audit regarding the failure of the department to conduct investigations into the relevant fraud. The complainant had not appeared for the relevant investigations and the investigations had not been concluded unilaterally and action had not been taken in accordance with the Establishments Code.</p> | <p>The relevant information has been obtained and accordingly, a preliminary investigation has been initiated under file number ESD/04/2022/02 and is currently underway. Although the complainant in the preliminary investigation, Mr. M.M. Ismi, was notified by letters dated 2025.02.05 and 2025.02.27 to appear for the preliminary investigation to provide a statement, he has not appeared. The investigation is continuing.</p> | <p>Management should pay more attention to fraud and misconduct caused by officials.</p> |
| <p>(e) The Unaccompanied Passenger Cargo (UPB) inspection centers were overwhelmed by the large amount of confiscated and abandoned goods, but no steps had been taken to dispose of the goods that could not be used and sale of the goods that could be used immediately.</p> | <p>The goods sent to the central disposal department for sale from the relevant investigation centers have been entered into the tender immediately. Similarly, the goods referred to the Central Disposal Division for destruction from the relevant investigation centers have been included in the destruction process.</p> | <p>Confiscated and abandoned goods should be dealt with without delay.</p> |

5. Good Governance

5.1 Internal Audit

Audit Observation	Comments of the Accounting Officer	Recommendation
Although a Chief Internal Auditor, a Development Officer and about 12 Management Assistants are attached to the Internal Audit Division, a situation has arisen due to where the majority of Management Assistants being transferred to various departments of the Customs every 6 months, the Internal Audit Division is unable to fulfill its role and its independence has been challenged.	The Customs Department has achieved its historical revenue targets for the years 2023 and 2024 under the existing transfer system. Considering the unique circumstances of the Customs Department, prolonged detention at one location can also create a problematic situation, so steps were taken to maintain the relevant transfer policy under the existing system.	A formal internal transfer system should be developed.

5.1 Audit and Management Committee

Audit Observation	Comments of the Accounting Officer	Recommendation
Although, the Audit and Management Committee should be reviewed the economical and efficient use of resources in accordance with Section 41 of the National Audit Act, No. 19 of 2018, the Audit and Management Committee of the Ministry of Finance and the Department of Customs has failed to achieve the results that could have been achieved by holding these committees, due to the fact that, the issues that had been discussed for more than 5 years in the Audit and Management Committee of the Ministry of Finance and the Department of Customs, which directly contributed to the above objectives remained as unresolved.	have taken note to formally examine these matters and take the necessary action.	The recommendations of the Audit and Management Committee should be implemented.

5. Human Resources Management

Audit Observation	Comments of the Accounting Officer	Recommendation
Due to the fact that most of the officers belonging to various services in the department are transferred between different sections/units/branches every 06 months, duties related to various subjects have to be performed by inexperienced officers, due to the failure to hand over files properly, misplacement of documents and lack of updating of files, it has not been possible to properly perform internal controls in the sections and ensure responsibility and accountability.	Considering the unique circumstances of the Customs Department, prolonged detention at one location can be problematic, so the existing transfer system has been implemented and appropriate amendments will be made as needed in the future.	A formal internal transfer system should be developed.