

Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund - 2024

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Customs Overtime, Cargo Examination Fees and Customs Information and Communication Technology Fund of the Department of Customs for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income and expenditure, statement of changes in equity, and fund flow statement for the year then ended and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in 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 2024, and its financial performance and fund flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 determines 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 Responsibilities 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed 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 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.
- 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 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 audit 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 audit 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties;

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The Information, Communication, and Technology fees payable to Customs officers for the year under review, which was Rs. 2,995,200, had been overstated by Rs. 998,400 by showing them as Rs. 3,993,600 in the financial statements.	The Information, Communication, and Technology fees payable as shown in the financial statements, only the amount payable for the months of October, November and December 2024 has been paid in February 2025. The documents relating to the remaining amount to be paid have not yet been received by the Finance Division and payment will be made as soon as the relevant documents are complete.	Assets and Liabilities should be accurately reflected in the financial statement.
(b) The Information, Communication, and Technology fees payable to the Consolidated Fund for the year under review, which was Rs. 748,800, had been overstated by Rs. 249,600 by showing them as Rs. 998,400 in the financial statements.	The Information, Communication, and Technology fees payable as shown in the financial statements, only the amount payable for the months of October, November and December 2024 has been paid in February 2025. The documents relating to the remaining amount to be paid have not yet been received by the Finance Division and payment will be made as soon as the relevant documents are complete.	Assets and Liabilities should be accurately reflected in the financial statement.
(c) The debtors had been undervalued due to the amount of Rs. 240,000 due from 02 airlines in the debtor's ledger of the year under review was not reflected in the closing debtors balance in the statement of financial position.	Due to an omission, the amount of Rs. 105,000 due from Jazeera Airways has not been included in the closing debtor balance. Since the amount of Rs. 135,000.00 due by Mattala Airport for the month of February 2024 has been paid on 16.07.2024, it has not been included in the closing debtor balance as of 31.12.2024.	Current Assets and Accounts Receivable should be accurately reflected in the financial statement.

1.5.2 Lack of Evidence for Audit

Subject	Comment of the Management	Recommendation
During the year under review, a total of Rs. 1,153,749,454 had been paid to officers, consisting of overtime of Rs. 988,217,366, cargo examination fees of Rs. 153,551,288, and information	Generally, payments for overtime and holiday work to government officials are made in accordance with Chapter VIII of the Establishments Code. However, these fees are paid to Sri Lanka Customs officers in accordance	In accordance with the Public Administration Circular and directives given by the COPA Committee, fingerprint

technology and communication fees of Rs. 11,980,800, but, for the confirmation of above expenses, as the evidence of verification, fingerprint reports that they were reported to the work, had not been submitted to the audit.

with the “Fees” set out in Chapter IX of the Establishments Code. As stated in 1:1:1 of that chapter, “Officers of the Customs Department are entitled to receive a fee for services rendered to the Government.” The said Customs service fees do not fall under the category of overtime payments.

machines should be used.

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

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
(a) Extraordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka No. 17/1520 of 26 October 2007.	Although there should have been a procedure approved by the Secretary to the Ministry of Finance for making payments to Customs officers from the Customs Overtime and Cargo Examination Fees Account, such a procedure had not been approved.	Approval has been obtained from the Secretary to the Ministry of Finance, vide letter MF1/4/CUS/474 dated 09.11.2010, to pay Customs Overtime and Cargo Examination Fees to Customs Officers from the Account.	Actions should be taken in accordance with the Gazettes Notifications of the Democratic Socialist Republic of Sri Lanka.
(b) Departmental Order No. 855 dated 01 March 2013, Departmental Order No. 1247 dated 01 October 2018 and Departmental Order No. 1664 dated 25 September 2024.	The Director General of Customs had approved the hourly overtime rate approved in the year 2004 to be increased by 45 percent through Departmental Order No. 855, to be increased again by 50 percent in the year 2018 through Order No. 1274 and to be increased again by 50 percent in the year 2024 through Order No. 1664, subject to the final recommendation of the Overtime Committee. However, the approval of the Overtime Committee or the Ministry of Finance which was obtained for the issuance of these orders could not confirmed to the audit	The action has been taken in accordance with the recommendations of the Overtime Committee. The Secretary to the Ministry of Finance, vide letter No. 1/Customs/47/3 dated 2004/02/09, has approved the calculation and payment of overtime based on the current salary. Accordingly, the amounts have been revised in the years 2013, 2018 and 2024 on the recommendations of the Overtime Committee.	with the recommendations of the Overtime Committee, approval should be taken from the Ministry of Finance.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs. 167,004,158 while the deficit for the previous year was Rs. 123,832,042. It was observed that the deficit for the year under review had increased by Rs. 43,172,116 compared to the previous year. This was mainly due to the increase in overtime payments by Rs. 126,155,793 compared to the previous year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Due to the total expenditure of Rs. 790,606,873 exceeding the income received by the Customs Overtime Fund during the last 5 years, the balance of the accumulated fund, which was Rs. 2,133,975,331 in the year 2020, had been decreased by Rs. 664,000,126 to Rs. 1,469,975,205 as at 31 December 2024, this had been due to the fact that payments were made in excess of the income collected, but the management had been failed to take the necessary measures to prevent the depletion of the accumulated balance of the fund.	The overtime rate collected is calculated in accordance with the Extraordinary Gazette No. 1520/17 dated 26.10.2007. Accordingly, no revision of the rate has been made since the year 2007. This situation has arisen due to the increase in the rate paid to employees on several occasions for employee motivation and the number of employees.	An overtime pay structure should be developed to match income being collected.
(b) Nearly 90 percent of Customs overtime income had been paid to officers as overtime without properly verifying whether the officers had been worked outside of their normal duties.	Payments to officers from the Customs Overtime Fund has properly monitored according to the Customs Form 221 and the amounts has recommended and payments has made correctly under the approval of the relevant responsible officers.	Overtime should be paid after confirming that the duties have been performed after the normal working hours.
(c) Although, in order to claim the Customs Cargo Examination Fees, it is mandatory to report to duty before 06.00 AM on weekdays and before 09.00 AM on weekends and public holidays as per Departmental Order No. 1140 dated 27th February 2017, without verifying the arrival and departure of the staff as per the existing circular provisions to be followed, Rs. 3,488,310,572 had been paid as Cargo Examination Fees from the year 2012 to the year 2024.	Generally, payments for overtime and holiday work to government officials are made in accordance with Chapter VIII of the Establishments Code. However, these fees are paid to Sri Lanka Customs officers in accordance with the "Fees" set out in Chapter IX of the Establishments Code. As stated in 1:1:1 of that chapter, "Officers of the Customs Department are entitled to	The arrival and departure of staff should be confirmed, in accordance with the existing circular provisions which are to be adhered.

	receive a fee for services rendered to the Government.”	
(d)	As at end of the year under review, a balance of Rs. 71,111,110 had not been recovered from debtors and that balance included a total of Rs. 4,631,314 in outstanding that had not been recovered even though more than two years had passed. Among the aforesaid outstanding debt balances, the total value of the outstanding debt balances belonging to 14 institutions, which amounted to Rs. 718,388, remained unchanged for 6 years, but adequate measures had not been taken to recover these outstanding debt balances for a long time.	Action has been taken to stop issuing re-registration numbers until the outstanding balance is paid and not to renew annual bonds until the outstanding amount is paid. Accordingly, the outstanding balance as at 31.12.2024 has been reduced to Rs. 22,486,271 as at 30.04.2025. Further action is being taken to recover the remaining outstanding balance.
		Action should be taken to recover outstanding debtor balances promptly.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
During the year under review, Rs. 911,808,364 had been received for overtime, Rs. 307,102,576 for cargo examination fees and Rs. 14,976,000 for information and communication technology activities, and officers involved in subordinate duties had been paid Rs. 988,217,366 as 108.38 percent of the overtime income, Rs. 153,551,288 as 50 percent of the cargo inspection income and Rs. 11,980,800 as 80 percent of the information technology income. Although it has been consistently pointed out in previous audit reports that the above payment process is not being carried out under proper control, no action has been taken to regularize this situation. During the current year also, Rs. 76,409,002 had been paid to officers in excess of the overtime income collected.	The overtime rate collected is calculated in accordance with the Extraordinary Gazette No. 1520/17 dated 26.10.2007. Accordingly, no revision of the rate has been made since the year 2007. This situation has arisen due to the increase in the rate paid to employees on several occasions for employee motivation and the number of employees. Although a gazette notification has already been drafted and submitted to the Ministry of Finance for the revision of the fees charged to suit the current situation, the necessary approval has not yet been received.	A structure should be developed that ensures transparency and legality regarding the income of the overtime fund and the payments made from the fund.