

Custom Officers' Reward Fund - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Custom Officers' Reward Fund 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 comprehensive income, 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 report 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 accompanying financial statements of the Fund give a true and fair view of the financial position of the Fund as at 31 December 2024, and of its financial performance and their fund flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Qualified Opinion

My opinion on the accompanying financial statements 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 (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 Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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

1.4 Auditor's Responsibility in Auditing 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.
- Obtained 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 to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including disclosures, and the transactions and events on which the content is based are appropriately and fairly included in the financial statements.

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; and whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the reference to particular Standard	Comments of the Management	Recommendation
I. Although, the financial statements should be prepared on an accrual basis in accordance with Sri Lanka Public Sector Accounting Standard No. 01, the financial statements had been prepared only based on the Reward files received for payment to the Finance Division and out of the outstanding penalties and forfeitures amounting to Rs. 4,800,470,461 as on 31 December 2024, Rs. 2,400,235,230, which is 50 percent of the amount due to this fund had not been included in the financial statements as income receivable of the fund and the value of Reward payable to officers for which Reward files had not been prepared but penalties and forfeitures had already been received.	All proceeds from the sale of fines and confiscated items are credited to the Temporary Retention Deposit Account (18/128) for statutory payments and no payments are made during the financial year for all investigations for which money is deposited into that account. Sometimes it may take several years. There are also cases where fines related to certain investigations have to be paid back to the relevant persons after the investigation is completed. Therefore, money is credited to the Customs Officers' Reward Fund (6/62) only when the investigation is completed and payments are made. In that case, after deducting the administrative expenses from the proceeds of fines and confiscated items in the statutory fund, the remaining money is credited to the Customs Officers' Reward Fund as 50%, to the Government as 30% and to the Customs Officers' Management and Compensation Fund as 20%. Therefore, until all the work on the investigation	Compliance to Sri Lanka Public Sector Accounting Standards should be required.

files is completed and approved and submitted for payment, there is no possibility of accounting for the fines and sales related to those files as receipts to the Reward Fund.

II. In the notes to the financial statement, had not been made a clear disclosure in accordance with Sri Lanka Public Sector Accounting Standard No. 01 regarding the manner in which the value of Rs. 122,949,021 paid by the Narcotics Fund during the year 2024, as stated in note no. 2.6.2 of the Financial Performance Statement, has been adjusted.	Noted, for the future action inlining with the audit observation.	Compliance to Sri Lanka Public Sector Accounting Standards is required.
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The value of Rs. 23,285,174, which was identified as the Reward money payable as of 31 December 2024, had not been identified as an expense in the financial performance statement for the year under review.	Notes were taken to prevent such shortcomings from occurring in the future.	All the expenses for the year must be accounted for in the financial statements.

1.5.3 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Management	Recommendation
At the end of the year under review, the credit balances of the funds for the Fuel Fund, the Narcotics Control Fund, the 2.5% Fund and other pools had been different as a Rs.260,458,768 Rs.33,177,298, Rs.128,937,833 and Rs.112,443,982 respectively as a total difference of Rs. 535,017,881 from the balances shown in the Statement of Financial Position.	The reason for the difference between the balances shown in the trial balance and the financial statements is stated in the statement of changes in equity (page number 04).	The balances shown in the statement of financial position should be compared with the corresponding documents/reports and then the correct figures should be included in the financial statements.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Customs Ordinance No. 17 of 1868			
Section 153 (2) (b)	Although the distribution of Reward money from the fund should be made according to a scheme to be approved by the Minister of Finance, without such approval, payments of Rs. 25,244,792,239 to officials and Rs. 4,554,073,737 to informants had been made on a document without formal approval during the 13 years from 2012 to 2024, pursuant to Departmental Order No. PL 118 prepared in the year 1988.	In accordance with the provisions of the Payments Department circulars as stated in the audit inquiry, it is possible to approve payments from this fund to informants and parties who are primarily involved in investigations, taking into account the existing requirements. Furthermore, an expenditure estimate is prepared for the distribution of Reward money from the Reward fund every year and the personal approval of the Minister of Finance has been obtained and the relevant money has been paid to the officers so far.	Compliance to the provisions of the Customs Ordinance is required.
(i) Section 153 (2) (b)	Although the reward money was supposed to be distributed among the relevant officers and informants according to a scheme approved by the Minister of Finance, based on the Departmental Order No. PL 118 and 19 amendments made thereto, reward funds amounting to Rs. 674,893,081 had also been allocated to officers of 18 other divisions of the Department who do not directly contribute to Customs investigations during the year under review.	The Departmental Order bearing PL 118 dated 28.01.1988 relating to the distribution of Reward money from the Reward Fund of the Customs Department has been declared by the Court of Appeal to be a valid, operative and enforceable document in accordance with the judgment in the Gunathilaka Ediriweera Weerasena case, and therefore it becomes a Case Law. Furthermore, it is also apparent from the legal explanation given in the letter E/248/2002 dated 31.12.2002 sent by the Attorney General's Department that the Supreme Court has decided that the	Compliance to the provisions of the Customs Ordinance is required.

Departmental Order bearing PL 118 relating to the distribution of the Customs Reward Money is a document issued through a proper mechanism with the necessary approvals.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.486,663,285 and the corresponding surplus for the preceding year was Rs.424,344,028. Accordingly, an improvement of Rs.44,319,257 was observed in the financial results. The increase of income from penalties enforcement by Rs.2,894,401,737 in 2024 compared to 2023 was the main reason for this improvement.

3. Operational review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A container imported from Japan in 2024, identified as vehicle spare parts and accessories, was classified as high-risk by the Risk Management Unit (RMU) and the new container scanning system of Sri Lanka Customs and was referred to the Gray Line II Container Inspection Centre for in-depth inspection. The customs officers at that centre had attempted to release the container without properly performing their duties, and the container had been referred to the Revenue Task Force (RTF) of Sri Lanka Customs for re-inspection. However, the unit had also failed to conduct proper investigations, and the container had been handed over to the Central Investigation Bureau (CIB) of Customs for inspection. During the physical inspection conducted by the Central Investigation Division, it was revealed that there were 609 undeclared and under-declared goods in the container, as well	In accordance with the Code of Procedures for Inspection of Imported Containers issued in 2016, it is the primary duty of Customs officers to properly inspect imported goods and collect government revenue correctly, and to prevent illegal and restricted goods from entering the country. The Central Investigation Division has initiated a re-investigation into the release of the container in question without proper inspection. Then will be informed of the further action based on the recommendations of that investigation.	Investigations should be concluded expeditiously and appropriate disciplinary action should be taken against the guilty officers.

as 122 used vehicle seats and 18 tires that required permits from the Department of Import and Export. A penalty of Rs. 450,000 was imposed on the importer and 122 used vehicle seats and 18 tires were confiscated in connection with the customs offences committed. However, no disciplinary action had been taken against the Customs officers of the Gray Line II Container Inspection Centre and the Revenue Task Force (RTF) as per the provisions of the Establishment Code of the Democratic Socialist Republic of Sri Lanka.

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| <p>(b) Due to the failure of various departments of Sri Lanka Customs to properly recover the penalties and forfeitures imposed in accordance with the provisions of the Customs Ordinance, Rs. 4,800,470,461 should have been recovered in relation to customs investigations conducted by 12 departments during the year under review. Of this outstanding balance, Rs. 3,372,004,119 has been outstanding for more than 01 year but adequate action had not been taken to recover it.</p> | <p>As necessary follow-up to recover the relevant outstanding penalties and forfeitures, reminders will be sent to the relevant institutions and individuals, advice will be sought from the Attorney General's Department, and proceedings will be initiated in court.</p> | <p>Action should be taken to promptly recover penalties and forfeitures that have not been collected for a long time.</p> |
| <p>(c) In only 21 customs investigation case files, various customs offences were committed and attempts were made to evade payment of tax amounting to Rs. 607,547,151, and after customs investigations, a penalty of Rs. 10,453,231,592 was imposed. Later, the penalty amount was reduced by 90 percent to Rs. 979,794,078, and only Rs. 293,938,223, which is 30 percent of the penalty amount, had been credited to the government revenue. Accordingly, due to the failure to act prudently and determine the value to be imposed as penalty in accordance with Section 166(b)(b) of the Customs Ordinance,</p> | <p>In accordance with the powers of the Customs Ordinance, the investigating officer conducting the investigation, after considering the facts relevant to each investigation and taking into account the facts presented during the investigation, imposes a penalty according to the offense committed by the relevant institution. In that case, the investigating officer has reduced the penalty by considering the show reasons of the importers (Consignees) of the relevant goods in accordance</p> | <p>should take steps to properly collect the government revenues dues.</p> |

the government had lost the opportunity to recover Rs. 313,608,928 out of the tax amount of Rs. 607,547,151 due. with Sections 163 and 166B of the Customs Ordinance.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The Fuel Fund was established as a sub-fund of the Reward Fund with the aim of meeting the fuel expenses required for customs investigations and Rs. 260,462,336 had been credited to the Fund during the year under review. However, the fuel cost for investigation activities had been paid under the general expenditure head of the Department. Accordingly, due to the continuous collection of money in this Fund without any real need, its cumulative balance as at the end of the year under review had been Rs. 1,200,958,540.	Agreed with the observation.	The attention should be paid to the utilization of funds.
(b) the 9,519 investigations which were initiated by various divisions of Sri Lanka Customs had not been completed by the end of the year under review . Of these, 3,038 investigations had been initiated 5 years ago, and 4,958 investigations had been initiated between 1 and 4 years. Due to such delay in completing the investigations, adverse situations had been arisen such as the goods seized being destroyed, expired, not being able to obtain proper value from subsequent sales, demoralizing the informants and officers and delaying the receipt of revenue due to the government.	There are various reasons for delay in resolving investigations, including the following: I. It takes some time to find/obtain/provide the necessary information and documents to confirm whether or not a customs offence has been committed. II. It takes time to analyse the information/data received by Customs and to repeatedly disclose/provide information accordingly. III. It takes some time for the suspect parties/institutions to respond to Customs accordingly. Sometimes requests for time are made. IV. When the suspect parties do not respond to Customs, it takes time to take the necessary steps to bring them before the law.	The attention should be paid to the allocation of funds.

- V. It takes time to obtain laboratory test reports/condition test reports/assessment reports, etc. related to the goods detained by Customs.
- VI. It takes time to complete the conditions imposed by other regulatory agencies that must be completed before the goods are released, i.e., to obtain relevant permits and approvals.
- VII. When goods are ordered to be re-exported, the importer takes time to re-export the goods.
- VIII. The process of disposing of confiscated goods takes time.
- IX. When an appeal has been filed with the Customs against the Customs investigation decision, a reasonable time is taken to consider the appeal.
- X. When a case has been filed in the courts against the Customs investigation/ decision, the Customs investigation file is not closed until the case decision is received.