Head 246 - Report of the Auditor General of the Department of Inland Revenue - Year 2017

The Appropriation Account , the Reconciliation Statement and the 36 Revenue Accounts relating to Revenue Codes included in the Table 3.1.1, 3.1.2, 3.13 of the Annual Budget Estimate under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act No. 24 of 2016 as amended by the Appropriation (Amendment) Act No. 32 of 2017 were presented to audit by the Department of Inland Revenue. The financial and physical performance reflected from those accounts and the reconciliation statement were audited in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka

1.2 Responsibility on the Financial Management and Accountability of the Chief Accounting Officer and the Accounting Officer

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124. The Minister of Finance appoints the Chief Accounting Officers to discharge above responsibility in terms of Financial Regulation 124 (2). The Head of the Department will be the Accounting Officer in respect of all financial transactions of his Department in terms of Financial Regulation 125 (1) (a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament in accordance with the provisions in Article 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Department of Inland Revenue - Head 246 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, applying of internal control systems, compliance with laws, rules and regulations and maintenance of updated books, registers, records and reconciliation statements, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Commissioner General of the of the Department of Inland Revenue on 25 October 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.4 Audit Observation

The audit observations of the Head 246 of Department of Inland Revenue for the year ended 31 December 2017 revealed in audit appear in Management Audit Report mentioned in paragraph 1.3 above in detail. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in Paragraph 2.1 to 2.14 of this Report. It was observed that the accountability as the Chief Accounting Officer and Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulations 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128		**Not adhered to those provisions by the Chief Accounting Officer/ Accounting Officer**	**Paragraph Reference to the Report included the observation**
Financial Regulation			
128 (1) (a)	The work of his Department is planned and carried out with due dispatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorized, and that an endeavor is made to complete the programme of work laid down for the year and/or to attain the targets specified	1. Non-preparation of the Action Plan	2 .1.1
		2. Progress of performing the activities	2 .1.3
		3. Non-preparation of Budget Estimates in a realistic manner	2.8 (a)
		4. Non- maintenance of Registers and Books	2. 12
		5. Deficiencies in implementation of Procurement Procedure	2. 2.2
128 (1) (b)	The organization for financial control and accounting it his Department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account of monies received, the authorization of commitments on behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefore from public funds.	1. Progress of performing the activities	2 .1.3
		2. Deficiencies in implementation of Procurement Procedure	2.2.2

128 (1) (c)	The Financial Regulations and other supplementary instructions of the Government are adhered to in his Department, and that they are supplemented by Departmental Instructions, where necessary.		Non maintenance of Registers and Books	2 .12
128 (1) (d)	An adequate system of internal check for receipts, payments and issues is maintained and tested from time to time.	1.	Deficiencies in Revenue Accounts	2 .9
		2.	Deficiencies appeared in Public Officers' Advance Account	2 .10
128 (1) (e)	Adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and Instructions.	1.	Deficiencies in Annual Board of Survey.	2. 3 (c)
		2.	Deficiencies in Assets Management .	2 .3
128 (1) (f)	Such information, statements and returns as are called for by the Chief Accounting Officer or the Treasury, are rendered correctly and promptly.	1.	Non- preparation of the Action Plan accurately	2. 1.1
		2.	Not planning the Procurement activities adequately	2. 2.1
		3.	Non- preparation of Budget Estimates in a realistic manner	2. 8 (a)
		4.	Submission of Annual Performance Report in delay.	2. 1.2
128 (1) (g)	Returns showing the progress of collection of dues to Government are rendered regularly to the Chief Accounting Officer.	1.	In respect of Revenue account	2 .9
		2.	In respect of Advances to Public Officers' Account	2 .10
128 (1) (h)	special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action	1.	Deficiencies in Revenue Account	2 .9
		2.	Recovery of the arrears loan balances of the Advances to Public Officers' Account	2.10

	pursued to expedite their recovery.	3. Transactions of irregularities	2 .4
128 (1) (i)	The activities of his Department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business.	Progress of performing the activities	2 .1.3
128 (1) (m)	An Appropriation Account is rendered to the Chief Accounting Officer at the end of the financial year in respect of each Programme of a Head of Expenditure for which he is responsible as Accounting Officer .	Deficiencies appear on Appropriation Account Projects not obtained a progress though the Funds Released	2. 8 (c)
128 (1) (o)	The procedure laid down in Financial Regulations 103 to 108 is adhered to in case of losses to Government by the delays, negligence's, faults or frauds on the part of officers/ employees and surcharges are imposed on officers/employees responsible for such losses in terms of Financial Regulation 156 (1) . (It shall be the duty of him to make sufficient arrangements to ensure that was particular)	Not obtaining Security Deposits from the officers who involved in financial matters	2 .5

Financial Regulation 128 (2) - Accountability of the Public Revenue Accounting Officer

128 (2) (a)	Preparation of the Estimates of Revenue completely, and as accurately as possible, relating to the Code of Revenue.	Being impossible to collect the expected Revenue	2 .9
128 (2) (b)	Preparation of the Revenue Account in terms of Financial Regulation 151 at the end of each financial year.	Non - preparation of the Revenue Account properly.	2 .9
128 (2) (c)	Preparation of half-yearly returns and forwarded to the Auditor-General showing the state of arrears of Revenue as at 30 June and 31 December of each financial year relating to the Code of Revenue. (This report should be received to the	Half - yearly reports arrears of Revenue reports had not been prepared and submitted to audit as at the due date.	2 .9

	Auditor General before the 31 July and the 31 January respectively. A copy should be submitted to the Department of Public Finance Policy .)		
128 (2) (g)	Records are maintained of the amounts collected under the appropriate Code of Revenue, by obtaining such information as is necessary from the various Departments concerned and that such records are reconciled with the accounts of Revenue collections maintained in the Treasury, under the respective Code or Revenue .	Being prepared the Revenue Account based on the figures appeared on Treasury printout.	2 .9
128 (2) (i)	Rates and charges or taxes, fees, etc., are reviewed and that due action is taken to revise them from time to time, where necessary, having regard to changes in economic and other circumstances .	Not analyzing the matters affected in respect of Revenue variance.	2. 9

2. Material and Significant Audit Observations

2.1 Performance

2. 1.1 Planning

The Annual Action Plan prepared for the year 2017 for the utilization of the provisions allocated to the Department in terms of the Public Finance Circular No: 1/ 2014 dated 17 February 2014 had not been furnished to audit. Therefore, the Action Plan prepared according to the priorities established based on the Annual Budget relating to the year under review, executed time frame and the expected outputs / estimated results of those activities could not be examined.

2. 1.2 Annual Performance Report

Even though the Annual Performance Report relating to the year under review should be tabled in the Parliament within 150 days after the end of the financial year by the Department in terms of the Public Finance Circular No. 402 dated 12 September 2002, that Report had been tabled in Parliament on 09 October 2018 after a delayed period.

2.1.3 Progress of Performing of Key Functions

The observations relating to the progress of the Key Functions as per the Performance Report of the year under review tabled in Parliament by the Department are as follows.

(a) Compliance for Submission of the Tax Returns

Although the programmes for improving the compliance of the taxpayers' for the payment on self-assessment basis and by providing Revenue Returns in proper time were being continued throughout the year, the progress of submitting reports to the prescribed date had remained at a low level during the last two years in relation to the assessment year 2014/ 2015. Details are given below.

Assessment Year	Percentage of submission of Tax Returns on due date (As per the Types of Taxes)				
	Income Tax (Corporate)	Income Tax (Non-Corporate)	PAYE Tax	Nations Building Tax	Value Added Tax
	Per cent	Per cent	Per cent	Per cent	Per cent
2014/ 2015	52	47	63		
2015/2016	30	48	57		
2016/ 2017	41	45	14		
2015				86	65
2016				31	71
2017				21	47

(b) Collection of Revenue on Self - assessment Basis and Official Assessment Basis

The Progress on collection of Revenue on Self - assessment Basis and the Official Assessment Basis in the year under review and the two preceding years are as follows. (Excluding the Value Added Tax on Imports and Nations Building Tax on Imports)

Description	2015		2016		2017	
	Self Assessment Basis	Official Assessment Basis	Self Assessment Basis	Official Assessment Basis	Self Assessment Basis	Official Assessment Basis
Collection of Revenue - (Rs. Billion)	542.2	18.1	496.9	27.8	616.5	22.8
As a Percentage of	97	3	94	6	96	4

Overall Income
(Excluding VAT,
NBT on imports) - (
per cent)

Accordingly, it was observed that the collection of Revenue on Official Assessment Basis (on Other Basis) had been reduced by Rs. 5 billion or 18 per cent as compared to the preceding year.

2.2 Obtaining Supplies and Services through Procurement Procedure

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The provision amounted to Rs. 121.9 million had been made available for supplies and services which should be obtained by taking measures as per the Government Procurement Guideline by the Department and out of that only the provision amounted to Rs. 121.6 million had been utilized.

2.2.1 Planning Procurement

Although the Procurement Plans had been prepared in relation to the provision of Rs. 121.6 million utilized for the procurement procedure by the Department in the year under review, a procurement time schedule had not been prepared for the execution of the procurement activities timely.

2.2.2 Implementation of Procurement Procedure

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The Maintenance Service Agreement of the Database of the Main Computer System which carries out the Tax Administration for the taxable period up to 31 December 2015 had been ended by 22 December 2016 . Even though the procurement activities of selection of a supplier for the maintenance of this system by the Department had been commenced on 21 September 2016 , actions had not been taken to select an appropriate service provider after completion of the procurement activities even by 31 August 2017 the date of the audit conducted. The arrears tax balance amounted to Rs. 323 billion exists within this Tax Administration System and it was observed that the procurement activities had not been carried out timely by paying attention in respect of the security of the Database System.

2.3 Assets Management

The following observations were made during the audit test checks carried out in respect of the Assets of the Department.

(a) A portion of land in extent 41 perches with the valuation amount of Rs. 5.13 million had been provided to establish Ratnapura Regional Office under the Ratnapura New Town Development Plan in the year 2017 to the Department by the Urban Development Authority. Due to the action had not been taken to acquire the related land at that time , despite the aforesaid land had been purchased at the new valuation rate of Rs. 14.35 million in the year 2017 that was after a delay of 10 years , a sum of 9.22 million additional expense had been incurred. Further, because of actions not taken to construct a building by purchasing the land on time the District Office , Ratnapura had to be maintained for many years in a building on rent and Rs. 3.48 million had been paid as rent for that building only for the year under review.

(b) Idle and Under - utilized Assets

It was observed in audit test checks that the certain assets categorized below were in idle .

Type of Assets	Number of Units	Period remained in idle and Under- utilized
(i) Transformers	02	From the year 2009 to the year 2018 (Supplied at the renovation of the Inland Revenue Building)
(ii) C.C.T.V Cameras	70	From the year 2010 to the year 2018 (Although it had been fixed to the floors of the building whilst the renovation of the Inland Revenue Building, those had not been used.)

(c) Conducting Annual Board of Survey

As per the Board of Survey Reports submitted to the audit on 31 December 2017, it had been identified that there were a surplus of 230 units out of 53 types of items in 16 branches of the Department. Further, it had been identified that a shortage of 84 units out of 19 type of goods in 04 branches and a shortage of 621 units out of 09 type of goods in the cafeteria. However, the evidences were not furnished to audit that as it had acted in accordance with Financial Regulation 757 (2) with regard to those excesses and the shortages.

2.4 Transactions in Irregularities

Certain transactions entered in to by the Department had been devoid of regularity. The instances as such observed are shown below.

(a) In terms of the Sections 17(a) and 34 (s) of the Inland Revenue Act No. 06 of 2006 , when making investment of not less than Rs. 50 million for the fixed assets for a new enterprise, it could have been qualified as exemption by 25 per cent out of that investment value whilst calculation of the tax . As per the determination provided for the Section 17 (a) of the Act by the Committee of Determination for the Inland Revenue Act, there were many things to satisfy while providing this benefit for a new enterprise in an existing business. The following observations are made in this regard.

(i) Three taxpayers had asked to deduct a total amount of Rs. 2,953.9 million as eligible payments when computing income tax by offering amended tax returns as disclosed in the audit test checks carried out and a sum of Rs. 1,687.7 million had been allowed for eligible payment by the Department of Inland Revenue as follows.

Tax File Number	Assessment Year	Amount requested by the Taxpayer as an eligible payment to be reduced Rs.	The amount allowed by the Department to be reduced as the eligible payments Rs.
114007560	2012/ 2013	557,644,816	323,197,103
	2013/ 2014	1,021,211,334	599,205,818
114011096	2012/ 2013 2013/2014	436,894,556	260,949,038
114037443	2012/ 2013 2013/2014	938,181,921	504,398,905
Total		**2,953,932,627**	**1,687,750,864**

(ii) It was not confirmed that all the facts shown by the Interpretation Committee had been fulfilled when providing this benefit to the above taxpayers as per the file . Further, the basis of determining the amount as eligible payments of which the amount permitted to be deducted as only the part of the amount demanded by the taxpayer was also not observed to audit.

(b) The Ministries, Departments and Government Agencies should not select hotels for their meetings, seminars, workshops etc. as per the Paragraph III of the letter dated 28 February 2007 issued by the President's Office by paying attention to the Circular No. CSD/81/40 dated 04 January 2006 issued by the His Excellency President in respect of the Management of Expenditure and to the periodically amended Circulars for that.

Further, the hotel charges which should be paid for the food and accommodation in domestic tours should not be settled by government money. Nevertheless, the Department of Inland Revenue had paid a sum of Rs. 23,088,032 for conducting workshops and seminars in hotels during the year under review and 03 preceding years.

2. 5 Losses and Damages

The observations revealed in respect of the losses and damages during the audit test checks are shown below.

(a) The officers of the Investigation Division of the Department had conducted a an investigation in respect of the No. 114388149 and No. 114614254 Tax Files in the year 2012 . It had been informed to the Commissioner General of Inland Revenue by a public representation that the related investigation was not properly conducted and the taxpayer had not revealed the details of the several bank accounts in the Tax Returns. As revealed during the audit test check conducted in respect of the Bank Statements from the year 2009 to the year 2013 regarding 03 bank accounts shown in the public representation around a total of Rs. 3,179 million had been credited to the bank accounts. It was not observed as the Department had taken actions to issue additional assessments for the Income Tax and the Value Added Tax by identifying the revenue of the taxpayer so based on that from the amount being credited to the accounts.

(b) It was observed that the actions were taken in a slow manner while recovering of money for returned cheques as well. The number of cheques that remained so returned relating to the period from the year 2009 to 31 December 2017 were 6,842 and the value of them were Rs. 1,986 million. The number cheques relevant to the money not remitted to the Department after collecting from a third party was 3,791 and the value of them was a sum of Rs. 1,509 million. That was 76 per cent out of the total value of cheques . Out of total number of cheques returned a number 5,888 cheques relating to a total of Rs. 1,711 million had not been recovered even by 25 September 2018 .

(c) According to the Gazette Notifications issued in terms of the provisions of the Stamp Duty (Special Provisions) Act, No. 12 of 2006, it had been mentioned that the Stamp Duty amounted to Rs. 10,000 from the month of January 2008 and a sum of Rs. 20,000 from the month of January 2013 per each on a license issue to carry out a certain trade or business for the sales of liquor and sales of bottled toddy should be charged by the Divisional Secretariats. The Minister of Finance had to set out the directives for exemption from the Stamp Duty and had to be published through a Gazette Extraordinary to release that Stamp Duty. Nevertheless, the Divisional Secretaries had been advised by a Circular issued by a Commissioner of the Department of Inland Revenue on the advice of the Director General of the Department of Fiscal Policy not to levy Stamp Duties on 04 types of liquor licenses and bottled toddy licenses. Accordingly, it was observed at the audit checks carried out a large scale of Stamp Duties had lost to State Revenue during the period of 10 years from the year 2008 to the year 2017 and a sum of Rs. 2.7 million Stamp Duty income had been lost only in the year 2017 for the aforesaid license issued by 19 Divisional Secretariats .

2.6 Unresolved Audit Paragraphs

Out of a sum of Rs.1,437 million estimated for the renovation of the Department of Inland Revenue building and the construction of a vehicle yard with nine floors, a sum of Rs.1,318 million had been paid to the State Engineering Corporation and that construction work had to be completed before 31 December 2014. Although it had been pointed out in Paragraph 3.7 of the Auditor General's Report in the year 2015 as that construction was not completed even by 31 December 2015 , the construction works had not been completed even by 30 June 2018 .

2.7 Management Weaknesses

The following weaknesses were observed during the audit test checks carried out.

(a) The Department of Inland Revenue had taken action to set up an Revenue Administration Management Information System (RAMIS) at a cost more than Rs. 04 billion to carry out the tax administration activities efficiently to be implemented from the year 2016 . The following matters were observed regarding that.

(i) It was confirmed as per the information of the Tax Administration System that a number of 312,507 Tax Returns relating to Value Added Taxes, Income Taxes, PAYE Taxes and the Nations Building Taxes which should have been furnished for the year 2017 by the taxpayers in terms of Value Added Tax No. 14 of 2002, Inland Revenue Act No. 10 of 2006 and the Nations Building Tax Act No. 09 of 2009 had not been furnished to the Department even by 31 December 2017 .

(ii) The shortcomings identified by the system in relation to information and reports submitted by the taxpayers and the work items related to the matters further to be checked for the types of taxes administered under the Tax Administration Management Information System (RAMIS), is being directed to the officers by the system itself. Nevertheless, a number of 346,645 work items which were referred to the officers so in the year under review or 34 per cent out of the total works had not been completed as prescribed at the end of the year under review. It was observed in audit that out of the work items which were not completed, a number of 144,337 work items were for value Added Tax. It was observed that the functions of the computer system had also not taken place in time due to non-completion of work items so.

(iii) The facility to access to the entire database system to carry out a thorough test regarding the matters such as receiving of Tax Returns, the way of the officers behaved in respect of Tax Returns and measures taken by the officers to solve matters pertaining to the officers as such had not been made available to the Auditor General even up to 30 September 2018 .

(b) The Stamp Duty to be charged should be counted as per the market value of the property in case of any property is conveyed by an instrument, in terms of Section 15 (1) of the Stamp Duty Act No. 43 of 1982 . Nevertheless, occasions that were not based on market value were observed during the audit test check carried out whilst considering the value of being leased and mortgaged, based on the provisions of the Act . Further, even though a sum of Rs. 250 should be paid by the person who brings instrument to have the opinion of the Assessor in respect of the Stamp Duty to be charged for the instrument brought to an Assessor in terms of Section 38 (1) of the Stamp Duty Act No. 43 of 1982 this fee had not been recovered from the year 2006 up to the date of audit. A number of 10,336 instruments in the leases and mortgages registration documents maintained by 13 officers had been registered relating to years 2015 and 2016 and it was observed at the audit test checks carried out that the fee to be charged for these was a sum of Rs. 2,584,000.

(c) In the event of failure in paying money upon the Tax Returns presented by the taxpayers relating to the Value Added Tax and Nation Building Tax, a methodology of reporting as tax arrears using the computerized system by issuing Automated Assessment Reports and the computing and reporting penalty had been implemented up to 31 March 2012. Nevertheless that methodology had been discontinued from 01 April 2012 as a result, the money relating to the Returns on Value Added Tax and the Nation Building Tax submitted by the taxpayers during the tax period from that date up to 31 December 2015 a total of Rs.15,283 million had not been paid. Further, due to lack of Assessment Reports a balance in arrears totalling to Rs. 24,521 million comprising this tax in arrears and the penalty computed thereon amounting to Rs. 9,238 million had not been recovered even by 31 December 2017. Similarly, the Department had not taken action to report them as arrears of tax.

(d) The Department of Inland Revenue had taken action to inactive more than 17,000 taxpayers from paying tax with the increase in the tax threshold on Value Added Tax in the year 2013. Similarly, those tax files had been temporarily inactive. Nevertheless, at that time action had not been taken to bring the Tax Registration Certificate on the Value Added Tax back to the Commissioner General of Inland Revenue canceling the registration of those taxpayers. It was observed during the audit test checks carried out in the year under review and the last few years, around Rs. 63.6 million Value Added Tax revenue had been collected from Government Institutions showing 77 taxpayers who were inactive as such, as they have been registered Value Added Tax . However, that money had not been remitted to the Department. Furthermore, there were occasions such as the taxpayers had not disclosed Value Added Taxes or Tax Returns collected from public authorities. After showing in the audit reports , the Department had taken actions to some extent to take steps regarding the relevant taxpayers. Nevertheless it was observed that a methodology had not been established through the new tax administration computer system to prevent collecting Value Added Taxes from public institutions by inactive taxpayers and to confirm that the Value Added Taxes paid by the public institutions had been disclosed by the taxpayers in the Tax Returns properly.

(e) The Inland Revenue Department had taken measures to carry out the implementing activities of the Inland Revenue Act No. 24 of 2017 as a Project and actions had been taken to make provision amounted to Rs. 23,000,000 and recruit the staff and occupying them during the year under review . The approval of the Cabinet of Ministers for the related Project should have been taken in terms of the Management Services Circular No. 01/ 2016 dated 24 March 2016 as amended by the Circular No. 01/ 2016 (1) dated 16 December 2016 for the Recruitment of officers to a Project and to the determination of the remittance. Nevertheless it was observed that the approval of the Cabinet of Ministers had not been obtained for this Project. However even though the Department of Management Services had approved 40 posts for this unapproved Project, recruitments had not been made. It was observed that a sum of Rs. 12,289,621 had been incurred during the year under review for the other expenses of the Project.

(f) The Inland Revenue Incentive Fund had been established under Section 210 (1) of the Inland Revenue Act No. 10 of 2006 and according to a scheme approved by the Minister in terms of Section 210 (3) of the Act, funding for the welfare activities of the officers and incentive activities had been shown as the functions of the Fund. Amount disbursed annually by Parliament should have to be paid to the Fund in accordance with Section 210 (2) of the Act to perform those tasks. However, the payment of incentive had not been made by the Fund. Without crediting the provision granted annually from the Appropriation Bill to the Fund, payments had been made crediting to a General Deposit Account through that and the amount paid out as such in the year under review was Rs. 641,728,651. In addition, the Department had not taken actions to prepare a procedure for the administration of the Fund in terms of Section 210 (4) of the Act.

(g) A detailed audit had not been conducted for the tax period from the 2007/ 2008 assessment year to the 2014/ 2015 assessment year even by 19 October 2016 whereas the date of the Audit queries issued relating to the Tax File No. 114018830 remained at the Large Scale Tax Payers Unit. After the issuance of the audit query, a tax audit had been conducted only for the 2014/ 2015 assessment year. The following matters were observed regarding the above tax file.

- **(i)** Even though a different turnover in each of Income Tax Returns, Value Added Tax Reports, Nations Building and Economic Service Charge Reports furnished relating to 05 Assessment Years from the 2011/ 2012 Assessment Year to the 2014/ 2015 Assessment Year had been shown , it was not observed that the tax commitment had been calculated based on the correct turnover by paying attention in respect of that by the Department.

- **(ii)** After issuing the audit query, an audit of the tax file had been performed and the Department had taken actions to limit the carrying out audits only for the Assessment Year 2014/ 2015 indicating that the taxpayer is embarrassed by requesting information of the tax periods before the Assessment Year 2014/ 2015. In addition , eventhough the Department had revealed that the taxpayer had not behave properly when completing Value Added Tax Returns, it was observed that without paying attention in respect of that the consent of the taxpayer had been obtained to an additional tax of Rs. 23,213,338 by carrying out an audit based on the incomplete information given by the taxpayer.

(h) The following matters were observed at the audit test checks carried out in respect of Tax File No. 86/ 9002 - 03 of the Kandy Regional Office.

(i) As per the Tax File, the main revenue source of the taxpayer is gambling business income and this business had been carrying out around since 40 years. Nevertheless, it had been revealed that, the business income amounted to Rs. 375 million in the 2012/ 2013 Assessment Year and as per the detailed audit conducted the business income was a sum of Rs. 5,104 million in the 2017/ 2018 Assessment Year. However, during the period from the Assessment Year 2007/ 2008 up to the Assessment Year 2011/ 2012 the taxpayer had mentioned a business income ranging in between Rs. 15 million to 25 million income and it was observed that the Income Tax was calculated on that value. Accordingly, because of the correct business income of the taxpayer had not been detected, it was observed that a large scale of tax revenue had been lost in the past few years.

(ii) A fee at the rate of Rs. 300,000 for the year 2014/ 2015 , a sum of Rs. 600,000 per an Assessment Year 2015/ 2016 should be charged from one branch carrying out the gambling business in terms of the Betting and Gambling Tax Act. Although it was revealed that there are 175 branches of this business as per the officers who had carried out the Tax File audit ,the Annual Fee had been charged only for 100 branches in the year 2014/ 2015 and 120 branches in the year 2015/ 2016 . As a result, a total of Rs 55.5 million Tax Revenue had lost to the Department.

(iii) A 5 per cent tax ratio should be charged from the monthly gross receipts of a branch of Betting and Gambling Business with live features as per the Betting and Gambling Act. Nevertheless, the Department had not taken actions to charge the accurate tax on gross receipts in terms of Betting and Gambling Act by computing the gross receipts of each branch distributing the relevant gross receipts for the business revenue which was revealed amounted to Rs. 5,104 million as per the branches.

(iv) The taxpayer had deceased in the year 2010 and although tax returns had been furnished by another person without the signature of the taxpayer, the officer in charge of the file had failed to reveal about that. After the detailed audit conducted during the Assessment Year 2014/ 2015, the officers had not taken actions to issue an Assessment Notice amounted to Rs. 2,995 million consisted of additional taxes and fine to an heir of the deceased taxpayer who had actively involved in regarding the file under the deceased taxpayer's file number . An appeal had been filed against the assessment and that had not been solved even by 30 September 2018 .

2.8 Utilization of Provision made by Parliament for the Execution of Activities

The particulars relating to the provision made to the Department and utilization and savings for the five years period ended 31 December 2017 and the audit observations in respect of that are given below.

Year	Category of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of Net Provision
		Rs. Million	**Rs. Million**	**Rs. Million**	
2013	Recurrent	1,687.18	1,683.27	3.91	0.23
	Capital	244.00	192.62	51.38	21.06
	Total	**1,931.18**	**1,875.89**	**55.29**	**2.86**
2014	Recurrent	2,010.32	2,002.41	7.91	0.39
	Capital	1,137.68	1,085.55	52.12	4.58
	Total	**3,148.00**	**3,087.96**	**60.03**	**1.91**
2015	Recurrent	2,440.00	2,428.41	11.59	0.47
	Capital	2,036.05	2,008.72	27.33	1.34
	Total	**4,476.05**	**4,437.13**	**38.92**	**0.87**
2016	Recurrent	2,879.20	2,841.16	38.04	1.32
	Capital	1,686.05	1,219.97	466.08	27.64
	Total	**4,565.25**	**4,061.13**	**504.12**	**11.04**
2017	Recurrent	3,025.43	3,014.61	10.82	0.36
	Capital	1,439.08	1,322.56	116.52	8.10
	Total	**4,464.51**	**4,337.17**	**127.34**	**2.85**

The following observations are made in this regard.

(a) Preparation of Budget Estimates

Estimates should be prepared completely and accurately as much as possible in terms of Financial Regulation 50 (ii) . Nevertheless, even though the Total Expenditure Estimate of the Department of Inland Revenue for the year under review was Rs. 3,218 million, due to make approval of the Supplementary Provision amounted to Rs. 1,098 million later on the net provision had been increased up to Rs. 4,316 million by 34 per cent . Further, because of the initial estimated provision for 11 Objects had been increased within the range from 10 per cent to 1,030 per cent it was observed that the Expenditure Estimates had not been prepared in an accurate manner in terms of the Financial Regulation.

(b) A provision amounted to Rs. 20 million had been made by the Annual Budget in the year under review to establish 12 new Regional Offices for the Department of Inland Revenue with the objective of empowering of the Regional Tax Administration. Since the approval for the establishment of new Regional Offices had not been received from the Ministry of Finance and Mass Media, the procurement activities related to the establishment of new Regional Offices had not been conducted during the year under review.

(c) Appropriation Account

A sum of Rs. 21.3 million had been saved out of the provision made amounted to Rs. 52 million provided for the renovation of the Regional Offices of the Department of Inland Revenue. The savings of the provision of the above Objects during the preceding two years were about 35 per cent and 55 per cent respectively as well. Accordingly, it was observed that the there was no proper plan for the utilization of the provisions allocated for the renovation of the Regional Offices efficiently .

2.9 Estimated and Actual Income

The Revenue totaled to Rs. 837,855 million had been estimated for the 36 Code of Revenue for the year 2017 by the Department and a Revenue of Rs. 792,351 million had been collected during the year under review. That had been a 94 per cent out of the Estimated Revenue. Details appear below.

Code of Revenue	As at 31 December 2017			Actual Income as a percentage of Estimated Income
	Estimated Income	Actual Income	Excess/ (Deficit)	
	Rs. Million	Rs. Million	Rs. Million	
10.02.01.01	55,000	50,053	(4947.00)	91.01
10.02.01.02	155,000	149,447	(5553.00)	96.42
10.02.01.03	75,000	75,846	846.00	101.13
10.02.01.04	165,000	168,393	3393.00	102.06
10.02.02.01	0	0.04	0.04	-
10.02.02.02	0	0.08	0.08	-
10.02.02.03	0	0	0.00	0.00
10.02.03.01	0	16	16.00	-
10.02.03.02	0	0	0.00	0.00
10.02.03.03	0	0	0.00	0.00

10.02.07.00	0	0	0.00	0.00
10.02.08.00	0	0	0.00	0.00
10.02.09.00	0	21	21.00	-
10.02.10.00	0	0	0.00	0.00
10.02.12.01	40,000	38,821	(1179.00)	97.05
10.02.12.02	15,000	10,894	(4106.00)	72.63
10.02.12.03	20,000	19,320	(680.00)	96.60
10.03.03.00	1,800	1,929	129.00	107.17
10.03.04.00	1,500	1,334	(166.00)	88.93
10.03.05.00	45	53	8.00	117.78
10.03.07.10	1,500	1,651	151.00	110.07
10.03.07.11	0	0	0.00	0.00
10.03.07.12	0	0	0.00	0.00
10.03.09.00	0	7	7.00	-
10.03.10.00	10	4	(6.00)	40.00
10.04.01.01	122,000	107,614	(14386.00)	88.21
10.04.01.02	18,000	17,074	(926.00)	94.86
10.04.01.03	7,000	8,185	1185.00	116.93
10.04.01.04	0	0	0.00	0.00
10.04.02.01	35,000	32,920	(2080.00)	94.06
10.04.02.99	15,000	10,716	(4284.00)	71.44
10.04.03.01	60,000	51,351	(8649.00)	85.59
10.04.03.99	3,000	1,983	(1017.00)	66.10
10.04.04.01	47,000	42,560	(4440.00)	90.55
10.04.04.02	1,000	2,159	1159.00	215.90
20.06.03.00	0	0	0.00	0.00
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Total	**837,855**	**792,351**	**(45,503.8)**	**94.56**
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The following observations are made in respect of the Revenue Accounts appear above during the audit test checks carried out .

(a) Even though the Department of Inland Revenue had provided the estimated values of Rs. 632,240 million and Rs. 784,828 million respectively to the Department of Fiscal Policy to include in to the Original Revenue Estimate and the revised Revenue Estimate in the year under review, the Department of Fiscal Policy had taken actions to revise the Estimates that the Original Revenue Estimate as Rs. 798,268 million and the Revised Revenue Estimate as Rs. 837,855 million. In this way, even though the requests had been made by the Department of Inland Revenue from the Department of Fiscal Policy as to submit the matters which had based on to change the estimated values provided and to quantify the impact of those points to audit, there was no quantitative explanation made with regard to that.

(b) Although information relating to the basis of calculation of revenue should be mentioned in detail as per the Paragraph 03 of the Fiscal Policy Circular No 01/ 2015 dated 20 July 2015 whilst preparation of Original Revenue Estimates, the Department had not shown the information relating to the basis of calculation of Revenue Estimate in detail.

(c) As per the arrears Tax Returns relating to the old Tax Administration System (Legacy System) and the New Tax Administration System (RAMIS) submitted to the Auditor-General, the total of the arrears income of that should be collected as at 31 December 2017 by the Department of Inland Revenue was Rs. 341,537 million. However, any detail in respect of the arrears revenue had not been shown from Serial No. 8 to 14 in D.G.S.A Revenue -2 Format of the Revenue Accounts 36 prepared by the Department.

(d) The tax administration system had been carried out by the old Tax Administration System (Legacy System) up to 31 December 2015 and the arrears and fines to be recovered as at 31 December 2017 were Rs. 323,732 million as per the arrears Tax Reports that was presented relating to that. However, the total arrears revenue of the Department as at 31 December 2012 was Rs. 192,663 million and arrears of taxes had increased by 68 per cent by the year 2017 compared to the year 2012 . Quantitative measures to recover or settle arrears for the year under review and the previous years had not been carried out. Further , the following matters were observed regarding this.

(i) It was reported that a sum of Rs. 32,070 million or only 10 per cent out of the above total arrears taxes and penalties that could be recovered . It was also reported that the charging of arrears and penalties amounted to Rs. 291,662 million, or 90 per cent of the total arrears had been temporarily hold over . The Department had not taken action to settle the arrears tax balances totalled to Rs. 58,236 million whereas the charges were temporarily hold over by stating the objections, computer system errors, and other reasons as per disclosure at the audit test checks.

(ii) There was a balance of arrears amounted to Rs. 7,529 million at the beginning of the year under review remained relating to 06 cancelled Tax Acts and out of that arrears of tax amounted to Rs. 6,718 million had not been settled even by the end of the year under review .

(iii) Even though the Tax on Goods and Services Act had been abolished in the year 2002, a Goods and Services Tax which should be recovered under the Act amounting to Rs. 1,949 million had not been recovered by the Department even by 31 December 2017 . Further, an age analysis relating to the arrears tax balance had not been furnished to audit and the details of that tax balance had not been documented.

(e) Tax Administration is being operated under the New Tax Administration System (RAMIS) from the assessment year 2015/ 2016. The arrears Income Report which should be furnished to the Auditor General in terms of the Financial Regulation 128 (2) (c) before 31 January 2018 relating to that had been furnished on 17 July 2018 after a delay. The value of unpaid tax and penalty in respect of the years 2016 and 2017 was a sum of Rs. 17,805 million.

(f) The Revenue as per the Departmental Records had been understated by a sum of Rs.101,153,974 less than the Revenue shown by the Treasury in the Value Added Tax Control Account No. 1002-01-00. The Revenue Accounts had been prepared based on Treasury figures by crediting to the Revenue Code of Value Added Tax (other Services) in the Departmental Books without identifying the related reasons to that difference and make adjustments accurately . Therefore, the accuracy of the Revenue of the Value Added Tax was not confirmed.

(g) There was a disagreement amounted to Rs. 474,088,314 between the Departmental Books and the Treasury Reports of the Non - corporate Tax (other income) Code and the adjustments had been made in the Treasury Accounts by the transfer sheets as a refund of Revenue without identifying the relevant reasons and taking action to correct it. Since this Revenue Code is being implemented as a control account of the Treasury in another 20 Revenue Codes of the Department of Inland Revenue , the accuracy of the revenue relating to all Revenue Codes of the year under review was not confirmed.

(h) Even though Reconciliation Reports should be prepared for the confirmation of the Revenue that is credited to the Treasury through the bank's collection account and accuracy of the Revenue as per the reports maintained by the Department , the Department had prepared the Reconciliation Reports only up to the month of September 2017. Accordingly, it was observed that the Revenue Accounts had been prepared without reconciling and verifying the accuracy of Revenue.

(i) The matters observed in respect of tax income relating to the Taxes on Casino Industry and the Migrant Tax which were assigned to the Commissioner General of Inland Revenue by the Finance Act No. 10 of 2015 dated 30 October 2015 are appear below..

(i) Even though the Income Tax of Casino Industry totalled to Rs. 4,000 million should be collected on or before 15 November 2015 from 04 Casino Businesses as a sum of Rs. 1,000 million from each institution in terms of the Act, only a sum of Rs. 785 million out of that had been collected even by the end of the year under review. Accordingly, the amount of Rs. 3,215 million which should be received furthermore had not also been reported as arrears taxes during the year under review.

(ii) Provisions had been made for the levying of a 20 per cent migration tax from every Sri Lankan on released foreign currency to move out of the country to that citizen who leaves the island permanently to be eligible from the 01 of November 2015 , only a sum of Rs. 4.1 million had been collected as migration tax in the year under review.

Nevertheless , the attention of the Department had not been drawn to identify the persons leaving the country permanently and to formulate a mechanism or methodology to increase taxation determining the amount of foreign exchange they carry away from the country in connection with the Department of Immigration and Emigration and the Exchange Control Department .

(j) As per the Budget Proposals of the year 2017 , it had been estimated by the proposal to impose taxes on financial transactions amounted to Rs. 8,000 million as the Original Revenue Estimate and an investment of Rs. 5,000 million on the profit from the realization of investment assets. However, due to the non-implementation of these taxes during the year under review, revenue had not been collected.

(k) Even though a new tax had been imposed called Surcharge Tax under Corporate Tax as per the 2016 Budget Proposals, this tax had not been implemented during the year under review due to lack of relevant legal provisions.

(l) A sum of Rs. 9,460.9 million had been remitted to the Provincial Council from the revenue of the Nations Building Tax collected by the Department of Customs. Even though the documents and records should be obtained from the Department of Customs in order to confirm the amount of the remittance received the reports relevant to the months of November and December of the year under review had not been obtained from the Department of Customs .

2.10 Advances to Public Officers' Account

Limits Authorized by Parliament

The limits authorized by the Parliament for the advances to Public Officers Account of the Department Item No. 24601 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	**Actual**	**Minimum Limit**	**Actual**	**Maximum Limit**	**Actual**
Rs. Million	**Rs. Million**	**Rs. Million**	**Rs. Million**	**Rs. Million**	**Rs. Million**
110.00	64.8	77.00	91.01	415.00	322.2

The following observations are made in this regard.

(a) Non- recovery of Outstanding Loan Balances

As per the Reconciliation Statement submitted for audit, the aggregate balances of loans outstanding besides the loan balances of the officers who had station transferred was Rs. 804,108 and although those outstanding balances had been existing for the period ranging from 01 year to 20 years , the Department had failed to recover the those arrears loan balances.

(b) The distress loan balance amounted to Rs. 567,400 of an officer who had obtained a transfer to the Department of Inland Revenue on 25 September 2017 had not been taken over by the Department and only the remittance of the loan installment amounted to Rs. 11,290 recover from the officer's monthly salary to the Uva Provincial Council where the loan granted had been made. Even though the maximum limit of the distress loan amount which could be able to grant as per the Public Administration Circular No.30/2008 dated 31 December 2008 was Rs. 250,000 it was further observed that the distress loans had been obtained exceeding that limit from the place where the officer had previously served.

2.11 General Deposit Accounts

The total of the balances of 06 General Deposit Accounts exists under the Department as at 31 December 2017 was Rs. 1,937.37 million. The following observations are made in this regard.

(a) A sum of Rs. 21.5 million which was retained from the suppliers and credited to the General Deposit Account during the period from the year 2010 to the year 2014 had been retained in the General Deposit Account without releasing to the related parties or utilization to the expected retained activity.

(b) The delay charges amounted to Rs. 2.3 million charged from the suppliers had been retained in the General Deposit account without crediting to the State Revenue in terms of Financial Regulation 572.

2.12 Non – maintenance of Registers and Books

The Register of Fixed Assets which is being maintained by the Department with regard to the Land and Building had not been maintained in an updated manner by including all the details in terms of Treasury Circular No. 842 dated 19 December 1978 Financial Regulation 502 (2) and it’s Appendix 11.

2.13 Human Resources Management

Approved Cadre, Actual Cadre and expenditure for Personal Emoluments

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The Details of the approved, actual, vacant and excess staff to perform the activities of the Department as at 31 December 2017 are given below. A sum of Rs. 2,103 million had been incurred for the personal emoluments expenditure code for the year under review. Accordingly, the per capita expenditure had been Rs. 833,227.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Number of Excess
(i)	Senior Level	1,248	1,177	71	-
(ii)	Tertiary Level	36	27	9	-
(iii)	Secondary Level	1,055	904	151	-
(iv)	Primary Level	437	414	23	-
(v)	Casual/ Contract Basis	-	2	-	2
	Total	**2,776**	**2,524**	**254**	**2**

The following observations are made in this regard.

(a) The total number of vacancies of the Department as at 31 December 2017 was 254 and that was 9 per cent out of the approved number of employees. Out of that , the number of vacancies of the officers of the Inland Revenue Service were 71 and the number of vacancies in the assisting staff was 183 . The work items are referred to the officers of the Inland Revenue Service by the system of tax administration under new Income Tax Administration Computer System . The officers of the Inland Revenue Service perform the duties of the those work items and maintain the tax compliance and conduct the audit of the tax files with the assistance of the supporting staff officers. It is observed that the existence of the vacancies in the office will affect the timing of completion of work items and nearly 346,645 work items which generated through the system related to the year under review had not been completed even by 31 December 2017 as per the information furnished to audit.

(b) According to staff details submitted to the audit the number of employees under the other category (casual / temporary / contract basis) were 02 and there were no approved cadre for that. Even though it had been made a request from the Director General, Combined Service for the consideration of the awarding permanent appointments for two of them as per the Letter No. IAQ /2017/ 46(1)/ 10 of 31 October 2017 furnished to audit, the approval had not received even up to date.

(c) According to the information received to the audit, out of the total number of 1,162 officers in the Inland Revenue Service of the year under review, 727 officers or 63 per cent were attached to the Divisions of the Head Office and 435 officers or 37 per cent had been attached to Regional Offices. Nevertheless, 95 per cent of the total revenue had been collected by the officers attached to the Divisions of the Head Office and it was observed that only 5 per cent of revenue was collected from Regional Offices. Accordingly, an anomaly of assigning staff was observed.

2.14 Conforming to Sustainable Development

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As per the " Agenda" of the United Nations in 2030 on the Sustainable Development, the every State Agency has to act on its own and the Department of Inland Revenue had not aware of how to take measures relating to the activities under purview of their scope relating to the year under review.