Tax Appeals Commission - 2013

The audit of financial statements of the Tax Appeals Commission for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income and expenditure account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000– 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements 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 Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis of Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Tax Appeals Commission as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following deficiencies were observed.

(a) A statement of changes in equity had not been furnished together with the financial statements for the year under review in terms of Sri Lanka Public Sector Accounting Standard 01.

(b) In terms of Sri Lanka Public Sector Accounting Standard 07, an acquired asset should be depreciated from the date it was made available to the position fit for use, whereas contrary to that, the Commission had prepared the depreciation policy so as not to depreciate the assets during the year of purchase of those assets.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) In the year 2011, paid amount Rs. 3,105,000 as a security deposit for the rented building and it had been accounted expenditure for the year under review instead of receivable balance account. This error has not been adjusted during the year and due to this current assets and accumulated surplus decreased by the above amount.

(b) In the settling of building rent of Rs. 517,500 as monthly and total amount of Rs. 6,210,000 only will be transferred to the building rent expenditure account from the rent advance account. But, sum of Rs. 6,727,500 had been transferred to expenditure account from the rent advance account. According to this disparity the building rent expenditure has been increased by Rs. 517,500 and the rent advance account has been decreased by this amount.

(c) Provision for audit fees relating to the year under review had not been made in the financial statements.

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

A register of Fixed Assets had not been property maintained in accordance with the Treasury Circular No. 842 dated 19 December 1978.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Commission for the year ended 31 December 2013 had resulted in a deficit of Rs.6,274,185 as compared with the deficit of Rs.6,026,887 for the preceding year, thus indicating an deterioration of Rs.247,298 in the financial results for the year under review as compared with the preceding year. Although the establishment and administration expenditure of the year under review had increased by Rs.2,020,206, the increase in the Treasury Grants and other Income by Rs.1,772,908 had mainly attributed to the above deterioration in the financial result.

4. Operating Review

4.1 Performance

The Tax Appeals Commission had established by the Tax Appeals Commission Act, No.23 of 2011and any person who is aggrieved by the determination of the Commissioner-General of Inland Revenue given in respect of any matter relating to imposition of any tax, levy or penalty may prefer an appeal to the Commission and the Commission shall examine the appeals thus received and give determination. According to the information obtained by the Audit, the number of appeals referred to the Commission from the year 2011 to 2012 was 115 and the number of appeals determined amounted to 71. Accordingly, 44 appeals had not been determined. Further, out of 51 appeals received during the year under review, 47 appeals or 92 per cent had not been determined. Accordingly, it was observed that the Commission had not evinced an adequate performance.

4.2 Management Activities

Provisions relating to the presentation and auditing of the financial statements
of the Commission had not been included in the Tax Appeals Commission Act No,23 of 2011 by which the Commission had been established. Accordingly, the Commission had not drawn attention on making amendments to the Act by including the relevant provisions.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observations are made.

(a) In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements for the year under review should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the Commission had furnished the financial statements for the year under review to the Auditor General on 15 March 2016.

(b) In terms of Section 3 of the Public Enterprises Circular No. PED/45 dated 02 October 2007, the certification relating to the responsibility of the presentation of accounts had not been indicated in the financial statements.

5.2 Corporate Plan and Action Plan

A Corporate Plan and an Action Plan for the year under review had not been prepared in accordance with Section 5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

5.3 Budgetary Control

A budget for the year under review had not been prepared in terms of Section 5.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Secretary of the Tax Appeals Commission from time to time. Special attention is needed in respect of weakness in maintaining Books, records and registers in connection with not maintaining fixed assets register and not properly maintaining deposits and gurantees records.