

Report of the Auditor General on Head 246– Department of Inland Revenue – Year 2014

General information on the Accounts of the Department appears in paragraph 1 and 2 of this Report and the Audit Observations on the Head appears in paragraph 3.

1.1 Scope of Audit

The audit of the Appropriation Account and the Revenue Accounts including the financial records, reconciliation statements, books, registers and other records of the Department of Inland Revenue for the year ended 24 December 2014 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Commissioner General of the Department of Inland Revenue on 06 November 2015. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements 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.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Accounts

(a) Total Provision and Expenditure

The total net provisions made for the Department of Inland Revenue amounted to Rs. 3,148 million and out of that a sum of Rs.3,087.96 million had been utilized by the end of the year under review. Accordingly, Rs. 60 million out of the net provision of the Department or 2 per cent had been saved. Details appear below.

Expenditure	As at 31 December 2014			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	2,010.33	2,002.41	7.92	0.39
Capital	1,137.67	1,085.55	52.12	4.58
Total	3,148.00	3,087.96	60.04	1.91

2.2 Revenue Accounts

Estimated and Actual Revenue

Revenue amounting to Rs. 605,330 million had been estimated under 23 Revenue Codes for the year 2014 and Revenue totalling Rs. 485,387 million had been collected during the year under review. Accordingly 80 per cent of the estimated revenue had been collected. Details appear below.

Revenue Accounting Officer	Revenue Code	Revised Revenue Estimate	Actual Revenue	(Under Collection) / Over Collection	Percentage
		Rs. Millions	Rs. Millions	Rs. Millions	
Commissioner General of Inland Revenue	10.02.01.01	25,000.00	24,436.88	(563.12)	98
	10.02.01.02	80,000.00	65,756.16	(14,243.84)	82

- Do -	10.02.01.03	50,000.00	45,441.70	(4,558.30)	91
- Do -	10.02.01.04	135,000.00	102,280.68	(32,719.32)	76
- Do -	10.02.02.01	-	2.31	2.31	
- Do -	10.02.02.02	-	1.15	1.15	
- Do -	10.02.03.01	-	13.77	13.77	
- Do -	10.02.09.00	30.00	472.18	442.18	1,574
- Do -	10.02.12.01	15,000.00	17,600.15	2,600.15	117
- Do -	10.02.12.02	11,600.00	10,893.87	(706.13)	94
- Do -	10.02.12.03	19,000.00	16,089.10	(2,910.90)	85
- Do -	10.03.03.00	1,500.00	815.17	(684.83)	54
- Do -	10.03.04.00	2,200.00	2,048.05	(151.95)	93
- Do -	10.03.05.00	1,000.00	841.83	(158.17)	84
- Do -	10.03.09.00	600.00	579.47	(20.53)	97
- Do -	10.04.01.01	98,000.00	81,643.76	(16,356.24)	83
- Do -	10.04.01.02	12,000.00	10,365.56	(1,634.44)	86
- Do -	10.04.01.03	100.00	19.00	(81.00)	19
- Do -	10.04.04.00	8,400.00	6,154.51	(2,245.49)	73
- Do -	10.04.02.01	28,000.00	22,296.67	(5,703.33)	80
- Do -	10.04.03.01	107,400.00	69,402.27	(37,997.73)	65
- Do -	10.04.03.99	500.00	214.34	(285.66)	43
- Do -	10.04.02.99	<u>10,000.00</u>	<u>8,018.45</u>	<u>(1,981.55)</u>	<u>80</u>
Total		605,330.00	485,387.03	(119,942.97)	80
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2.3 Advance Accounts

2.3.1 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Department of Inland Revenue and the actuals are given below.

Item Number	Expenditure		Receipts		Deficit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Minimum Limit	Actual
	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
24601	85.00	59.14	50.00	55.47	310.00	273.82

2.4 Imprest Account

The balances of the Imprest Account of the Department of Inland Revenue as at 31 December 2014 amounted to Rs. 1.4 millions.

2.5 General Deposit Accounts

The balance of the Deposit Accounts of the Department of Inland Revenue as at 31 December 2014 totalled Rs. 2,095,16 million. Details appear below.

Name of Deposit Account	Deposit Account Number	Balance as at 31 December 2014
		Rs. Millions
General Deposits	6000/0000/00/0015/0126/000	57.42
Sundry Deposits	6000/0000/00/0014/0003/000	2,037.74
Total		2,095.16

2.6 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2014, the Appropriation Account, the Revenue Accounts and the Reconciliation Statements of the Department of Inland Revenue have been prepared satisfactorily subject to the observations appearing in the Management Audit Report referred in paragraph 1.1. The material and important observations out of the observations appeared in the Management Audit Report appear in paragraph 3.

3 Head 246 – Department of Inland Revenue

3.1 Non-maintenance of Registers and Books

The Department had not updated the Departmental Appropriation (Votes) Ledger in terms of Financial Regulation 447.

3.2 General Deposit Accounts

The following observations are made

- (a) The liquidated damages amounting to Rs. 25,902,750 recovered on account of the delay in the completion of the contract for the modernization of the Inland Revenue Building awarded to the State Engineering Corporation in the year 2009 had been retained in the General Deposit Account without being credited to the State Revenue.
- (b) A sum of Rs. 752,500 collected from the sale of tickets for the Budget Seminar 2015 had been retained in the General Deposit Account without being credited to the State Revenue in the year 2014.
- (c) The Stamp Duty Revenue in respect of the years 2013 and 2014 amounting to Rs. 1,047,477,214 and Rs. 990,267,695 respectively appearing in the General Deposit Account No. 6000/0000/00/0014/0003/000 had been retained in the General Deposit Account without being remitted to the Provincial Councils.

3.3 Imprest Accounts

The following observations are made

- (a) Action had not been taken even by 30 July 2015 for the settlement of the advances amounting to Rs. 1,400,000 granted on 20 September 2013 to a University for reviewing the computer system of the Department.

- (b) The Sub-imprest for postal expenses issued to Regional Offices had not been treated as sub-imprest and the total sum of Rs. 14,969,000 had been brought to account as an expenditure of the Department. Even though the unspent imprests as at the end of the year should be settled to the Treasury, the unsettled imprests had not been revealed due to the irregular accounting. Even though Financial Regulation 371 (6) does not permit the use of money provided for a particular year to make payments for another year, the Department had acted in contravention of that regulation.

3.4 Revenue Accounts

3.4.1 Presentation of Revenue Accounts

The following observations are made.

- (a) Even though 33 Revenue Accounts relating to the year 2014 should have been presented to the Auditor General before 31 March 2015 in terms of the State Accounts Circular No. 241/2014 dated 30 December 2014, those accounts had been presented to audit only on 24 April 2015.

- (b) None of the information on the arrears of revenue that should be included in the Revenue Accounts had been included in all 33 Revenue accounts presented.

3.4.2 Deficiencies in the Preparation of Revenue Accounts

The following observations are made.

- (a) Total revenue collected from the Stamp Duty in the year under review and the Stamp Duty Revenue Paid/ Transferred to Provincial Council not shown in the Revenue Accounts

According to the Stamp Duty (Special Provisions) Act, No. 12 of 2006, the Commissioner General of Inland Revenue is the Revenue Accounting Officer for the collection of Stamp Duty and according to the Provincial Councils (Transfer of Stamp Duty) Act, No. 13 of 2011, all Stamp Duty Revenue collected by the Government, should be transferred to the Provincial Councils on the basis of collection of such revenue. Accordingly, all revenue collected as the Stamp Duty Revenue should be shown as the Stamp Duty Revenue and the amount sent to the Provincial Councils should be shown as refunds in the Stamp Duty Revenue Account under the Revenue Code 10.02.07.00. Nevertheless, the Stamp Duty Revenue of Rs. 3,592,693,757 credited by the Treasury and the transfer of that amount to the Provincial Councils only had been shown in that Revenue Account. Nevertheless, the total Stamp Duty Revenue of Rs. 8,334,196,786 received by the Department and the sum of Rs. 7,343,929,092 transferred out of that to the Provincial Councils had not been shown in that Revenue Account.

- (b) Total Revenue collected from the Nation Building Tax in the year under review and the Payment / Transfers to the Provincial Councils not shown in the Revenue Accounts

According to the Nation Building Tax Act, No. 09 of 2009, the Commissioner General of Inland Revenue is the Revenue Accounting Officer for the collection of the Nation Building Tax and according to the Fiscal Policy Circular No. 01/2010 dated 29 December 2010, out of the revenue collected 33 1/3 per cent should be transferred to the Provincial Councils. Therefore, the total revenue collected as the Nation Building Tax amounting to Rs. 57,681,494,877 as the gross Nation Building Tax and the sum of Rs. 13,098,373,164 transferred to the Provincial Councils as the refunds should have been shown in the Revenue Accounts under the Revenue Codes 10.02.12.01, 10.02.12.02 and 10.02.12.03. Nevertheless, 66 2/3 per cent of the Nation Building Tax collected amounting to Rs. 44,583,121,713 only had been shown as the net revenue in these Revenue Accounts.

3.4.3 Non-submission of Returns of Arrears of Revenue

The following observations are made

- (a) In terms of Financial Regulation 128 (2)(c), the Half Yearly Returns of Arrears of Revenue as at 30 June 2014 and as at 31 December 2014 should have been furnished to the Auditor General before 31 July 2014 and 31 January 2015 respectively. Nevertheless, those returns had not been furnished to audit even by 31 May 2015 .
- (b) According to the Intranet, the arrears of revenue of the computerized Division except the arrears of revenue of the Regional Offices and the Divisions not computerized. The arrears of Computerized Division totalled Rs. 220,904,830,695.

3.4.4 Write off of Arrears of Revenue

In terms of Section 8(a) of the Settlement of Defaulted Tax (Special Provision) Act, No. 16 of 2010, action had been taken in the year under review for the write off of a sum of Rs. 15,575,382 out of the arrears of tax by publication in the Gazette Extraordinary No. 1844/62 dated 09 January 2014. Arrears of tax amounting to Rs.206,587,271 had been written off on the approval of the Deputy Secretary to the Treasury. The Compact Disk on those arrears of tax furnished to audit could not be opened and as such it was not possible to audit or accept the information included therein.

3.4.5 Estimation of Revenue

The following observations are made.

- (a) According to the Original Estimates of Revenue for the year under review relating to 20 Revenue Codes, the total revenue amounted to Rs. 657,058 million and that had been subsequently revised to Rs. 605,330 million. The actual revenue collected during the year totalled Rs. 485,387 million and that represented 73.87 per cent of the original estimate and 80.19 per cent of the revised estimate.

- (b) The actual revenue of 18 Revenue Codes had been less than the revised estimates and actual revenue of 02 Revenue Codes had been more than the revised estimate. The Value Added Tax (Imports) Revenue, which is the major revenue source of the Department for the year 2013, amounted to Rs. 96,590,086,435 and that had increased to Rs. 102,280,685,200 in the year 2014.
- (c) The tax revenue collected (net) amounted to Rs. 485,387,055,372 and out of that tax revenue, the revenue collected by other Departments and transferred to the Commissioner General of Inland Revenue amounted to Rs. 132,149,370,807. As such 27 per cent of the revenue collected represented revenue collected by other institutions.

3.4.6 Rectification of Errors in Accounting for Revenue

An audit test check revealed that sums totalling Rs. 138,400 out of the tax amounting to Rs.15,281,672 received for incorrect Revenue Codes and sums totalling Rs.46,567,342 out of the division unidentified taxes received amounting to Rs.987,135,632 in respect of the year 2013 and sums totalling Rs. 3,448,789 out of the taxes amounting to Rs. 6,352,277 received for incorrect Revenue Codes and sums totalling Rs. 73,350,901 out of the Division unidentified taxes received amounting to Rs. 579,810,204 in respect of the year 2014 had not been settled even by 20 August 2015.

3.4.7 Non-reconciliation of the Departmental Accounts with the Treasury Accounts

The following observations are made.

- (a) Differences between the Revenue Records of the Treasury and the Revenue Records of the Department existed in every preceding year and action had not been taken during the respective years to examine the reasons for those non-reconciliations/ discrepancies and rectify the errors (reconcile the accounts). As such certain discrepancies/ non-reconciliations and the problems relating to the accuracy of data existed not only in respect of the data on revenue shown in the Summaries of Accounts and the Revenue Accounts but also in connection with revenue data presented in the reports of in Central Bank of Sri Lanka as well.

(b) In accounting for revenue, the Department had maintained Control Account 10.02.01.00 for the Value Added Tax, Account No. 10.02.02.00 for Goods and Services Tax and Account No. 10.04.02.99 for all other taxes and according to the Tax Collection Records maintained by the Department even as at the end of the year under review the following differences were observed between the balances of the three Control Accounts and the balances in the Treasury records.

Revenue Control Account	Revenue According to the Departmental Records	Revenue According to the Treasury Computerized Records	Difference
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	Rs.	Rs.	Rs.
10.02.01.00	136,720,428,707	136,708,072,672	(12,356,035)
10.02.02.00	3,462,440	3,459,764	2,676
10.04.02.99	229,136,640,087	229,083,257,926	(53,382,161)

The following observations are made in connection with the above differences.

- i. According to the Monthly Returns on Reconciliation of Accounts (Table 66) sent by the Department in the year under review to the Director General of State Accounts, the Tax Revenue according to the Revenue Return of the Department for each month had reconciled with the Treasury records. But the above differences existed between the revenue according to the Revenue Returns of the Department and the revenue according to the Treasury Computer records. The statement furnished to the Director General of State Accounts by carrying out monthly reconciliation of the Revenue Returns of the Department with the Treasury Revenue Records could not be accepted.
- ii. Even though the difference of Rs. 12,356,034 in the Control Account No. 10.02.01.00 between the Revenue Returns of the Department and the Treasury

computer Records should have been examined, that amount had been deducted as refunds from the revenue of the Revenue Code 10.02.01.02.

- iii. Instead of examining the reasons for the difference of Rs. 53,382,161 between the Revenue Returns of the Department and the Treasury records and making adjustments, that amount had been shown as a deduction from that Revenue Code.
- iv. The total revenue in the Control Account of the Revenue Code 10.04.02.99 of the Department amounting to Rs. 229,136,640,087 included a sum of Rs. 84,655,276 relating to the Revenue Code 10.02.10.00 of the Director General of Public Finance.

3.4.8 Refund of Taxes by the Treasury

According to the Computer records of the Treasury, taxes totalling Rs. 11,339,155,267 had been refunded by the Treasury during the year under review.

Revenue Code	Direct Payment	Erroneous Adjustments	Transfers to Provincial Council	Lack of Details	Others
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	Rs.	Rs.	Rs.	Rs.	Rs.
10.02.01.02	-	26,517	-	-	12,819,516
10.02.02.02	-	-	-	-	2,676
10.02.07.00	-	-	3,592,693,757	-	-
10.02.12.03	7,993,890	103,548	-	7,664,390,205	-
10.03.04.00	-	633,258	-	-	-
10.04.02.99	7,109,740	-	-	-	53,382,160
Total	15,103,630	763,323	3,592,693,757	7,664,390,205	66,204,352
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The following observations are made in this connection.

- (a) As the Revenue Accounting Officer for the collection of the Nation Building Tax is the Commissioner General of Inland Revenue, the refunds of the Nation

Building Tax should also be made by him. Nevertheless a sum of Rs. 7,993,890 out of the tax collected by the Sri Lanka Customs had been directly refunded by that Department to the Provincial Councils.

In addition none of the particulars of the refunds amounting to Rs. 7,664,390,205 shown as made by the Sri Lanka Customs had not been furnished to audit.

- (b) Sum totalling Rs. 66,204,352 had been adjusted to the Departmental tax revenue as refunds to agree the revenue according to the Treasury records with the revenue according to the Departmental records.

3.4.9 Contentious Refunds of Debit Tax

Even though the letter No. IOD/CM/MIS/14 dated 21 January 2015 of the Director General of Treasury Operations informed that the sum of Rs. 5,499,000 debited by the Treasury in December 2014 to the Departmental Imprest Account No. 7002/0000/00/00/69/00/0214/000 is a refund of Debit Tax, there is no possibility in terms of Financial Regulations 118 and 205 for the refund of tax by debiting the Imprest Account. Similarly, the authority for the refund of Debit Tax is devolved on the Commissioner General of Inland Revenue in terms of the Debit Tax Act and as such, debiting Rs. 5,499,000 to the Imprest Account by the Treasury had become a contentious transaction.

In addition, this has become a questionable issue due to reasons such as the Debit Tax being an abrogated tax since 01 April 2011, the failure to take action hereon up to December 2014 and the lack of adequate evidence in support of the collection of that Debit Tax.

3.4.10 Non-receipt of Remittance Forms for the Taxes Paid to Banks

The tax remittance forms handed over to the Banks by the Tax Payers during the year under review for the following taxes credited to the Collection Account had not been furnished to the Department by the Banks concerned. In the absence of Remittance Forms the Taxes paid by the taxpayers had not been recorded in the accounts of the respective taxpayers.

Category of Tax	Account Number	Amount Credited to the Accounts without Remittance Forms	Amount Received in the year 2014	Amount not brought to Account due to lack of remittance forms even by 28 May 2015
		Rs.	Rs.	Rs.
Value Added Tax	2026647	104,464,161	60,999,413	43,464,748
Income Tax	2026527	25,615,978	16,511,352	9,104,626
Economic Service Charge	2026713	12,584,800	12,254,077	330,723
Nation Building Tax	7041556	42,746,310	25,305,643	17,440,667

3.4.11 Problems arisen from Tax Acts

The following observations are made

(a) There were instances where certain taxpayers with arrears of tax closing down their businesses, registering again under different names (as a company) from the same address. In this connection it was observed in audit that when a business is closed down and opening and registering a new business by a businessman, amending the provision to obtain and produce a Tax Clearance Certificate would help in minimizing the existing arrears of tax.

(b) In terms of Section 102 (1) of the Inland Revenue Act, 3 per cent of the funds received by the Non-Governmental Organizations during a particular year of assessment should be deemed as the profit and income of the Non-Governmental Organization and a tax at 28 per cent of that amount (with effect from 01 April 2014) should be recovered. In addition, those institutions are required to furnish Quarterly Returns of income to the Commissioner General of Inland Revenue.

There were 359 Non-Governmental Organizations registered with the Department and those Organizations had not furnished the Quarterly Returns of funds received in terms of paragraph 4 (III) of the Departmental Guide No. 2011/04 of 22 July 2011. The Department had not taken any action in that connection.

3.4.12 Effectivity Ratio

According to the Appropriation Account, the total expenditure of the Department for the year 2014 amounted to Rs. 3,087,962,992 and the actual tax revenue according to the Revenue Accounts amounted to Rs. 485,387,055,372. As such the effectivity ratio had been 157:1 or the cost of earning Rs. 100 amounted to 64 cents. The effectivity ratio for the preceding year had been 249:1 or the cost of earning Rs. 100 amounted to 40 cents. Accordingly the cost of earning Rs. 100 in the year under review had increased by 24 cents.

3.5 Reconciliation Statement of Advances to Public Officers Account

The following deficiencies were observed during the course of the test check of the Reconciliation Statement of the Advances to Public Officers Account Item No. 24601 as at 31 December 2014.

- (a) According to the Reconciliation Statement furnished to Audit the balances that remained outstanding as at that date totalled to Rs. 273,820,300. Even though the outstanding balances amounting to Rs. 3,050,162 included therein had been old between 01 year to 05 years, the follow-up action on the recovery of those outstanding debtor balances had been at a weak level.
- (b) Action had not been taken for the recovery of the property loan balance of Rs. 191,514 due from an officer deceased on 18 September 2012 from the National Insurance Trust Fund.
- (c) Even though a sum of Rs. 313,012 out of the sum of Rs. 552,702 receivable as at 31 December 2014 from 03 interdicted officers, had been recover from the incentives in the year 2015, the balance sum of Rs. 239,690 had not been recovered.
- (d) No recoveries what so ever had been recovered during the year under review from the loan balances amounting to Rs. 496,660 due from 5 officers who had vacated the posts.

(e) At the grant of a property loan of Rs. 252,045 to an employee, action had not been taken to ensure that the deed for the land is written in his name and register the Power of Attorney. That employee had vacated post in the year 1999 and since then it had not been possible to recover the loan balance.

(f) As it was informed that the files and particulars of loan balances amounting to Rs. 230,534 relating to the year prior to the year 1996 are not traceable those loan balances had become irrecoverable balances.

3.6 Good Governance and Accountability

3.6.1 Annual Procurement Plan

Even though the Procurement Plan had been prepared in terms of the National Budget Circular No. 128 of 24 March 2006, the following matters were observed in this connection.

- (a) Procurement had not been done according to the Procurement Plan
- (b) Even though the provision made under the Object No. 246-1-1-2002 –Rehabilitation and Improvement of Capital Assets amounted to Rs. 2,500,000, the procurement in that connection had not been included in the Procurement Plan.
- (c) The Procurement Plan had not been revised in accordance with the revised Budget Estimates for the year 2014.

3.6.2 Audit and Management Committee

The Audit and Management Committee functioned under the Ministry of Finance and Planning and only 03 meetings had been held for the year 2014.

3.7 Assets Management

The following deficiencies were observed during the course of the audit test check of the assets of the Department.

(a) Idle and Underutilized Assets

Certain assets had been either idle or underutilized as analyzed below.

<u>Category</u>	<u>of</u>	<u>Number</u>	<u>of</u>	<u>Idle or Underutilized Period</u>
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<u>Assets</u>	<u>Units</u>	
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Transformers	02	The two machines supplied during the modernization of the Inland Revenue Building had not been used from the year 2009.
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CCTV Cameras	70	Even though the CCTV Cameras had been installed in the floors of Inland Revenue Building during the modernization in the year 2010, those had not been used.
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(b) Balances Receivable

A sum of Rs. 50 million had been paid on 28 February 2008 to the Chairman of the Building Materials Corporation Ltd. for the transfer of a block of land 100 perches in extent from the land belonging to the Building Materials Corporation Ltd. situated at Sri Sangaraja Mawatha, Colombo 12 to the Department of Inland Revenue. Even though the transfer of the land had been stopped, action had not been taken for the recovery of the advance.

(c) Unsettled Liabilities

In addition to the unsettled liabilities of the Department as at 31 December 2014 amounting to Rs. 46,641,222 shown in the Appropriation Account, further liabilities amounting to Rs.1,619,198 as well existed.

3.8 Non-compliances

(a) Non-compliances with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
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(i) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
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Financial Regulation 94	
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Liabilities amounting to Rs. 38,599,221 exceeding the provision made for 10 Objects had been committed.

(ii) Government Procurement Guidelines	
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Guidelines 5.4.12	
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When Government institutions pay the Value Added Tax, the particulars thereof should be sent to the Department of Inland Revenue with a copy to the Auditor General, before fifteenth day of the month following month of payment. Such information had been furnished only by 89 Government Institutions. A methodology for obtaining such information from other institutions had not been prepared.
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(b) Non-compliance with Tax Requirements

Instances of action taken contrary to the tax requirements observed during the course of audit test checks are given below.

i. Non-submission of Returns in respect of Value Added Tax

The following observations are made

- Even though two Government Institutions had paid Value Added Tax amounting to Rs. 6,706,375 to two taxpayers, those taxpayers had not paid that tax to Department.
- The Value Added Tax amounting to Rs. 943,143 paid by contractors to 06 taxpayers appearing in the computer system as dormant taxpayers had not been remitted to the Department.

ii. Non-recovery of Arrears of Tax despite the undertaking that action would be taken for recovery of Arrears of Tax

The outstanding Value Added Tax amounting to Rs. 449,448,567 and income tax amounting to Rs. 642,393,631 of a taxpayer for the year 2007/2008 had not been settled.

iii. Examination of Tax Files

The following observations are made

- Even though deduction for expenditure recoverable from the Nation Building Tax paid from 01 April 2010 to 31 December 2010 should only be 1/3, the full sum of Rs. 999,871 had been deducted.
- Even though the tax payer had agreed to pay an additional tax of Rs.7,178,027 on the understated income of Rs. 180,652,889 in respect of the years of assessment 2009/10,2010/11, and 2011/12, that tax had not been recovered even by 31 October 2015.

- The income tax recoverable from a taxpayer in respect of the years of assessment 2006/07, 2007/08, 2008/09 and 2009/10 amounting to Rs.207,967,965 had not been recovered through set off against overpaid taxes, adjustment by crediting to another period and resolving through appeals.
- Even though the appeals made according to tax files for the Value Added Tax amounting to Rs. 573,262,517 in respect of the period from 07031 to 08123 had been accepted, action had not been taken to cancel the assessment notice issued.

3.9 Delays in the Completion of Projects

The Motor Vehicles Park of 9 floors estimated for the construction during the modernization of the Inland Revenue Building in the year 2009, was agreed in writing for completion before 31 December 2014, the work had not been completed even by 31 October 2015 despite the elapse of 05 years of the award of the contract to a State Corporation.

3.10 Deficiencies in Operating Bank Accounts

The Bank Reconciliations relating to 33 Bank Accounts maintained for the collection of Tax Revenue of the Department had not been prepared.

3.11 Irregular Transactions

Certain transactions executed by the Department had been of irregular nature. Several such transactions are given below.

(a) Award of the Security Services Contract for a Higher Price

The following observations are made in this connection

- (i) Even though it was possible to deploy 90 members of the Security staff for an annual payment of Rs. 19,302,360, the Security Services contract had been awarded to a company which charges Rs. 34,686,240 for the year, As such a sum of Rs.15,383,880 had to be paid per year.
- (ii) In view of action taken in terms of the Public Finance Circular No. 445 dated 12 August 2010 instead of taking action in terms of Section 1.2 of the Procurement Guidelines, that company had been settled for the supply of security service without calling for open bids.

(b) Payment of Money for Modernization of the Inland Revenue Building

The contract for the modernization of the Inland Revenue Building had been awarded to a State Corporation on 09 July 2009. The following observations are made in this connection.

- (i) Even though the defects in the modernization work carried out by the State Corporation through other contractors had not been rectified the Department of Inland Revenue had made payments.
- (ii) Even though a sum of Rs. 49,580,000 had been paid to the same State Corporation for the Consultancy Services of the Contract, a sum of Rs. 1,250,000 had been paid in addition to a Government Consultancy Bureau. As the Contractor Corporation itself had been performing the Consultancy Services, the defects had not been revealed.
- (iii) In view of the delay in the construction of the motor vehicle park under that contract, a sum of Rs. 3,285,000 had been paid for the rent of a motor vehicle park for the years 2013 and 2014.

3.12 Uneconomic Transaction

Obtaining Prepaid Cards

The Department had obtained prepayment card for Rs. 100,000 from the Treasury with effect from 21 June 2013 and crediting that money to the Prepaid Card Account at the Bank of Ceylon. As no expenditure had been incurred from the Prepaid Card Account in the year 2013 and 2014 the money obtained at Rs. 100,000 annually had been idling.

3.13 Human Resource Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2014 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	1,250	1,152	98	-
(ii)	Tertiary Level	24	130	-	106
(iii)	Secondary Level	1,052	585	467	-
(iv)	Primary Level)	397	372	25	-
(v)	Others (Casual/ Temporary/ Contract basis)	-	02	-	02
	Total	2,723	2,241	590	108

Even though 565 posts in the Senior Level and the Secondary Level, that is 25 per cent of the approved cadre had been vacant, the Department had failed to fill those vacancies. The Department had failed to obtain the approval for the excess of 106 officers in the Tertiary Level.