

Report of the Auditor General on Head 246 – Department of Inland Revenue – Year 2015

Head – 246 The audit of the Appropriation Account, Revenue Account and the Reconciliation Statements including the financial records, books, registers and other records of the Department of Inland Revenue for the year ended 31 December 2015 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 on 22 September, 2016. 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 for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Account 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 Account

Total Provisions and Expenditure

The total net provisions made for the Department of Inland Revenue amounted to Rs. 4,476.05 million and out of that, Rs. 4,437.13 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provisions, amounted to Rs. 38.92 million, representing 0.87 per cent. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of the Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	2,440.00	2,428.41	11.59	0.48
Capital	2,036.05	2,008.72	27.33	1.34
Total	4,476.05	4,437.13	38.92	0.87

2.2 Revenue Accounts

----- Estimated and Actual Revenue -----

Revenue totalling Rs. 537,050.00 million had been estimated by the Department under 29 Revenue Codes for the year 2015, and revenue totalling Rs. 524.83 million had been collected during the year under review. Details appear below.

Revenue Code	Initial Estimate	Revenue Revised Estimate	Revenue Actual Revenue	Variation between the Revised Estimate and the Actual Revenue, Increase / (Decrease)	Increase/ (Decrease) as a Percentage of the Revised Estimate
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	
10.02.01.01	35,000.00	30,000.00	27,896.35	(2,103.65)	(7.0)
10.02.01.02	85,000.00	75,000.00	73,719.68	(1,280.32)	(1.7)
10.02.01.03	40,000.00	35,000.00	28,894.52	(6,105.48)	(17.4)
10.02.01.04	136,000.00	90,000.00	83,726.43	(6,273.57)	(6.9)
10.02.02.01	-	-	0.62	0.62	100.0
10.02.02.02	-	-	0.26	0.26	100.0
10.02.02.03	-	-	0.0	00	100.0
10.02.03.01	-	-	11.63	11.63	100.0
10.02.03.02	-	-	-	-	-
10.02.03.03	-	-	-	-	-
10.02.08.00	-	-	-	-	-
10.02.09.00	-	-	15.77	15.77	100.0
10.03.03.00	8,000.00	2,200.00	831.92	(1,368.08)	(62.2)
10.03.04.00	2,500.00	2,300.00	1,394.92	(905.08)	(39.4)
10.03.05.00	1,300.00	1,200.00	753.31	(446.69)	(39.4)
10.02.12.01	22,000.00	20,000.00	21,243.98	1,243.98	6.2
10.02.12.02	10,600.00	10,000.00	6,800.01	(3,199.99)	(32.0)
10.02.12.03	18,000.00	18,000.00	15,894.77	(2,105.23)	(11.7)
10.04.01.02	15,000.00	11,000.00	12,339.85	1,339.85	12.2
10.04.04.00	8,000.00	6,500.00	6,148.45	(351.55)	(5.4)
10.04.01.01	145,000.00	130,000.00	139,395.47	9,395.47	7.2
10.04.02.01	32,000.00	24,000.00	26,205.53	2,205.53	9.2
10.04.03.01	95,000.00	64,000.00	62,411.59	(1,588.41)	(2.5)
10.04.03.99	500.00	300.00	492.47	192.47	64.2
10.04.02.99	15,000.00	14,800.00	11,454.39	(3,345.61)	(22.6)
10.04.01.03	100.00	2,000.00	4,135.64	2,135.64	106.8
10.06.03.00	-	-	-	-	-
10.03.09.00	1,000.00	750.00	1,066.64	316.64	42.2
10.02.07.00	-	-	-	-	-
Total	670,000.00	537,050.00	524,834.20	(12,215.80)	(2.27)

2.3 Advance Account

2.3.1 Advances to Public Officers Account

Limits Authorized by Parliament

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

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
105.00	82.07	60.00	78.15	360.00	321.37

2.4 Imprest Account

The Imprest balance of the Department under the account No. 7002/0000/00/0069/0015/000 as at 31 December 2015 totalled Rs. 522.79 million.

2.5 General Deposit Account

The total of the balances of 07 Deposit Accounts under the Department totalled Rs. 1,035.73 million as at 31 December 2015. Particulars are given below.

Deposit Account No.	Balance as at 31 December 2015
	Rs. Million
6000/0000/00/0001/0039/000	0.45
6000/0000/00/0002/0052/000	0.60
6000/0000/00/0006/0085/000	12.56
6000/0000/00/0016/0004/000	56.45
6000/0000/00/0018/0005/000	0.14
6000/0000/00/0019/0010/000	0.03
6000/0000/00/0041/0003/000	965.50
Total	1,035.73

2.6 Audit Observation

The Appropriation Account, Revenue Accounts, and the Reconciliation Statements of the Department of Inland Revenue for the year ended 31 December 2015 had been satisfactorily prepared subject to the Audit Observations included in the Management Audit Report referred to in paragraph 1.1 above. The material and important audit observations included in that Management Audit Report appear in paragraph 3.

3. Material and Important Audit Observations

3.1 Imprest Account

The imprest balance totalling Rs. 2.84 million comprising the balances of Rs. 1.40 million and Rs. 1.44 million brought forward since the years 2013 and 2014 respectively, had not been settled even up to 30 April 2016.

3.2 General Deposit Account

The contract for modernizing the building of the Department of Inland Revenue had been awarded to a Government Corporation in the year 2009. The liquidated damages amounting to Rs. 1,341,448 recovered in the year 2015 on account of the delay in the completion of the contract, had been retained in the General Deposit Account even up to 30 April, 2016 without being credited to the State Revenue.

3.3 Revenue accounts

The functions such as preparation of revenue estimates for 29 Revenue Codes, collection and accounting of revenue, and presentation of accounts, had been entrusted to the Head of the Department being the Revenue Accounting Officer. The following weaknesses were observed during the audit test checks conducted in respect of those Revenue Codes.

- (a.) Despite being stated in the initial estimates that the revenue expected to collect in the year under review had been Rs. 670,000 million, the initial revenue estimate had been revised as Rs. 537,050 million in a manner to be consistent with the revenue possible to be collected instead of collecting the said revenue.
- (b.) The following weaknesses were revealed in examining the report of the tax in arrears presented as at 31 December, 2015.
 - (i) According to the report of revenue in arrears, revenue totalling to Rs. 259,528 million had remained in arrears by the end of the year under review. No any information whatsoever on the revenue in arrears with respect to serial numbers 8-14 under the Format, D.G.S.A. Revenue – 2 in the 29 Revenue Accounts had been shown. It had been reported that, of the said tax in arrears, and the fine, a sum of Rs. 33,723 million representing 13 per cent of the total in arrears, could be recovered whilst the recovery of the balance amounting to Rs. 225,805 million representing 87 per cent of the total

of the tax and fine in arrears, had been temporarily suspended. The reasons that caused the temporary suspension of the recovery, and the information on the balances of tax in arrears, are given below.

Reasons for Temporary Suspension of Recovery	Balance of Tax in Arrears
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	Rs. Million
Appeals on taxes	89,737
Objections	18,292
Indication of errors in the computer system.	18,683
Existence of repayable balances	12,686
Taking legal action	2,235

- (ii) When examining the list of individual balances with respect to the report of tax in arrears, the tax payer himself had raised objections against the taxes that had been agreed to be paid on self-assessment basis. Hence, the recovery of the sum of Rs. 3,885.86 million in respect of 03 types of taxes, namely Value Added Tax, Income Tax, and the Nation Building Tax, had been temporarily suspended.

Before proceeding to recover a tax in default, the defaulter should be issued a notice in writing in terms of Section 41 (1) of the Value Added Tax Act, No. 14 of 2002. In case a valid appeal is not furnished, the defaulter may make any objection to the tax so charged in terms of Section 41 (2) of the Act. However, on such objections, the Commissioner General should give his decision which is deemed final. Nevertheless, due to failure of the Commissioner General to give such a decision, or taking action to recover the balances in arrears, the aforesaid balance of tax in arrears amounting to Rs. 3,885.86 million, had not been settled even up to 31 December 2015.

- (iii) An age analysis on the tax in arrears amounting to Rs. 1,966 million in respect of goods and services, had not been furnished to audit, and information on that balance of the tax in arrears had not been recorded.
- (iv) A balance of Rs. 8,694 million had remained in arrears at the commencement of the year under review in respect of 08 tax related Acts that had been annulled, and of that, a sum of Rs. 8,134 million had not been settled even by the end of the year under review.
- (v) An unusual duration of time had been allowed by the Consultancy Committee of the Ministry to recover the tax in arrears from the Public institutions. For instance, it had been authorized to recover the tax in arrears pertaining to a particular Public institution in 1,965 monthly installments or 163 years.

- (c.) According to the Department books, the revenue of the Value Added Tax under Revenue Code 10.02.01.00 had been overstated by a sum of Rs. 203.70 million in excess of the Treasury books of the Control Account. Without taking action to identify the reasons that caused the difference, that sum had been deducted as refunds from the revenue under the

Revenue Code 10.02.01.02, and the sum so deducted in the preceding year, amounted to Rs. 12.36 million.

- (d.) In order to implement the budget proposals of the year under review, the new taxes named, Super Gain Tax, Casino Industry Levy, Mansion Tax, Migrating Tax, are collectible by the Commissioner General of Inland Revenue in terms of Finance Act, No. 10 of 2015. Accordingly, the Department had taken action to collect a sum of Rs. 47,360.61 million through the Super Gain Tax in the year under review, but the performance with respect to the other 03 taxes, had been as follows.
- (i) With effect from 29 January, 2015, Casino Industry Levy totalling Rs. 4,000 million should have been collected from 04 Casino industries registered as at that date at Rs. 1,000 million each. Nevertheless, only Rs. 80 million thereof had been collected in the year under review.
 - (ii) The Mansion tax amounting to Rs. 01 million is levied, for every year commencing on or after April 1, 2015, on every owner of a mansion constructed on or after April 1, 2000. However, as directives required for implementing the provisions of the Act had not been formulated in terms of Sub-section 25 (4) of the Act, no levy whatsoever had been collected in the year under review.
 - (iii) Although a Migrating Tax of 20 per cent is levied on the foreign exchange released to be taken out of the country with effect from 01, November 2015 from any citizen of Sri Lanka who permanently leaves Sri Lanka. However, no revenue whatsoever had been collected in the year under review due to failure in implementing a methodology to enforce the tax.

3.4 Reconciliation Statement on the Advances to Public Officers

The following observations are made.

- (a.) Although the loan protection insurance had been obtained from the National Insurance Trust Fund in respect of the property loan balance of Rs. 191,514 due from an officer deceased on 18 September 2012, action had not been taken to recover that loan balance from the National Insurance Trust Fund.
- (b.) Action had not adequately been taken by the Department on loan balances totalling Rs. 355,420 recoverable from 05 officers who had vacated the posts.
- (c.) The property loan balance of Rs. 252,045 recoverable from an officer who had vacated the service in the year 1999, could not be recovered as he had not taken action to transfer the deed under his name while he had been in service.
- (d.) Action had not been taken in terms of Financial Regulations, on loan balances that had remained outstanding over a period of 20 years as at 31 December, 2015.

3.5 Good Governance and Accountability

Annual Procurement Plan

The annual Procurement Plan for the year 2015 prepared in terms of the National Budget Circular, No. 128 dated 24 March 2006, had not been updated in accordance with the revised estimate. In addition to that, a detailed Procurement Plan had not been prepared as well in terms of Guideline 4.2.1 (c) of the Procurement Guidelines.

3.6 Assets Management

The following weaknesses were observed in the audit test checks conducted on the assets of the Department.

(a.) Idle Assets

It was observed in the audit test checks that the assets described below, had remained idle.

Category of Assets	No. of Units	Period of Underutilization of Remaining Idle
Transformers	02	From the year 2009 up to the date of audit, 13 June, 2016 (had been supplied while the building of the Department of Inland Revenue was modernized.)
C.C.T.V. Cameras	70	From the year 2010 up to the date of audit, 13 June, 2016 (had been installed at the floors of the building of the Department of Inland Revenue while it was modernized, but they had not been utilized)

(b.) Balances Receivable

In order to take over a plot of 100 perches from a land belonging to a Government Corporation, for the Department of Inland Revenue, that Corporation had been paid a sum of Rs. 50 million as advance on 28 February, 2008. However, the taking over of the said land had later been abandoned, but the advance paid had not been recovered even by the end of the year under review.

3.7 Implementation of the Projects through Domestic Financing

Of the sum amounting to Rs. 1,437 million estimated for modernizing the building of the Department of Inland Revenue and constructing the vehicle park comprising 09 storeys, a sum of Rs. 1,318 million had been paid to a Government Corporation. Despite being scheduled to be completed by 31 December, 2014, the constructions had not been completed even by 30 June 2016. Although a period of 06 years had elapsed since the payment had been made to the Government Corporation, the progress thereof had been 80 per cent as at that date.

3.8 Transactions of Contentious Nature

In order to issue Clearance Certificates to the tax payers, there should be no tax due from them to the Department. However, Tax Clearance Certificates had been issued on 08 October, 2015 with respect to a tax file, but the balance of tax due from that tax payer as at that date had amounted to Rs. 132.33 million. Furthermore, a methodology had been formulated for recovering in monthly installments so as to complete paying the said tax in arrears prior to 21 March, 2016, but a sum of Rs. 113.83 million further remained recoverable therefrom even as at 21 March, 2016, the date of audit.

3.9 Management Weaknesses

The following observations are made.

- (a.) According to the budget proposals for the year 2013, the value added tax rate ceiling prevailed up to then amounting to Rs. 3 million per quarter or Rs. 12 million per annum, had been increased up to Rs. 3.75 million per quarter or Rs. 15 million per annum with effect from 01 January, 2013. With the increase in the tax rate ceiling, the Department of Inland Revenue had taken action to release more than 17,000 tax payers from the tax outlay thereby deactivating the relevant tax files. Action had not been taken to cancel the registration of those tax payers, thereby obtaining the Value Added Tax Certificates issued up to then, by the Commissioner General of Inland Revenue. It was revealed in the audit test checks that 54 tax payers whose files had been so deactivated, had collected Value Added Tax approximately amounting to Rs. 175.09 million from Government institutions without furnishing tax reports or remitting taxes to the Department. It was not verified in audit that action had been taken on such tax payers in terms of the provisions of Section 17 (2) of the Act.
- (b.) Of the revenue collected by the Department in the year under review and the preceding year [except for the Value added Tax on imports (imports) collected by the Sri Lanka Customs, and the Nation Building Tax (imports)], 97 per cent had been collected by the Head Office, whereas 3 per cent had been collected by regional offices. However, when assigning officers of the Inland Revenue Service, 52 per cent and 48 per cent of the total number of officers had been attached to the Head Office and regional offices respectively in the year under review. Furthermore, 59 per cent and 41 per cent of the officers had respectively been assigned in the preceding year. Particulars are as follows.

Description	2015		2014	
	Head Office	Regional Office	Head Office	Regional Offices
Collection of Net Income				
Rs. Millions	410,971	14,243	354,853	12,165
Percentage	97	03	97	03
Assigning the Officers of the Inland Revenue Service				
Number	450	409	558	392
Percentage	52	48	59	41

According to the above description, it was observed that officers had not been assigned to the Head Office and regional offices in a manner that a growth in the collection of revenue would take place.

- (c.) The audit test checks carried out on tax files revealed that the turnover shown in tax reports and financial statements in respect of 04 assessment years from 2009/2010 to 2012/2013, had been different to each other. Particulars are as follows.

Year of Assessment	Turnover			
	As per Financial Statements	As per VAT Reports	As per NBT Reports	As per ESC Reports
	Rs.	Rs.	Rs.	Rs.
2009/2010	1,231,860,939	1,272,942,632	1,023,942,936	1,334,820,418
2010/2011	1,753,586,250	1,896,388,595	632,099,234	1,896,388,636
2011/2012	1,256,996,011	1,020,386,941	703,262,647	299,676,887
2012/2013	Financial Statements had not been Presented.	965,039,314	659,872,084	1,058,403,149

Furthermore, the following differences were revealed between the sums of Nation Building Tax shown in the financial statements, and the reports of the Customs in respect of 04 years from the assessment year 2009/2010 to 2012/2013.

Year of Assessment	Nation Building Tax paid on Imported Goods as per Reports of Customs	Nation Building Tax paid on Imported Goods as per Financial Statements
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	Rs.	Rs.
2009/2010	35,247,968	26,568,881
2010/2011	28,081,710	21,562,530
2011/2012	16,403,767	Not Reported
2012/2013	14,047,925	Financial Statements had not been Presented

By conducting an examination properly on the above differences, the Department had not taken action to look into the possibility of collecting additional taxes.

- (d.) It was revealed in audit test check conducted on tax files that the commercial turnover with respect to 03 tax files, had been understated. Accordingly, the tax revenue had been undercalculated by a sum of Rs. 649,395,374 as shown below.

Period	Category of Tax	Additional Tax to be Collected
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		Rs.
(i) 2012/2013	Value Added Tax	158,236,010
	Income Tax	78,630,575
	Nation Building Tax	21,892,804
(ii) 2013/2014	Income Tax	96,946,239
	Value Added Tax	211,837,034
	Nation Building Tax	24,317,162
(iii) 2009/2010	Nation Building Tax	5,782,969
	Value Added Tax	36,150,781
	Economic Service Charges	4,003,497
(iv) 2012/2013	Income Tax	11,598,303
	Total	649,395,374
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3.10 Human Resource Management

Approved Cadre and Actual Cadre

The position of cadre as at 31 December, 2015 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	1,249	1,214	35	-
(ii)	Tertiary Level	30	29	01	-
(iii)	Secondary Level	1,058	895	163	-
(iv)	Primary Level)	409	387	22	-
(v)	Others (Casual/ Temporary/ Contract basis)	-	02	-	02
	Total	2,746	2,527	221	02