Report of the Auditor General on Head 246– Department of Inland Revenue - Year 2016

The audit of the Appropriation Account and the Revenue Accounts and Reconciliation Statements including the financial records, books, registers and other records of the Head 246- Department of Inland Revenue for the year ended 31 December 2016 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 24 October 2017. 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. 4,565.25 million and out of that, a sum of Rs.4,061.13 million had been utilized by the end of the year under review. Accordingly, Rs. 504.12 million out of the net provision of the Department or 11.04 per cent had been saved. Details appear below.

Expenditure	**As at 31 December 2016**			**Savings as a Percentage of Net Provision**
	Net Provision	**Utilization**	**Savings**	
	Rs. Millions	**Rs. Millions**	**Rs. Millions**	
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**

2.2 Revenue Accounts

Estimated and Actual Revenue

Revenue amounting to Rs. 573,115 million had been estimated under 33 Revenue Codes for the year 2016 and Revenue totalling Rs. 604,252.57 million had been collected during the year under review. Accordingly, 105.43 per cent of the estimated revenue had been collected. Details appear below.

Revenue Code	As at 31 December 2016				
	Original Revenue Estimate	Revised Revenue Estimate	Actual Revenue	Increase/(Decrease) of the variation between revised estimated revenue and actual revenue	Increase/ (Decrease) as a percentage of the revised estimate
	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	
10-02-01-01	42,000.00	35,000.00	36,096.75	1,096.75	3.13
10-02-01-02	92,000.00	85,000.00	96,605.62	11,605.62	13.65
10-02-01-03	31,000.00	55,000.00	35,412.91	(19,587.09)	(35.61)
10-02-01-04	75,000.00	95,000.00	115,336.24	20,336.24	21.41
10-02-02-01	-	-	1.20	1.20	100.00
10-02-02-02	-	-	0.38	0.38	100.00
10-02-02-03	-	-	-	-	-
10-02-03-01	-	-	8.09	8.09	100
10-02-03-02	-	-	-	-	-
10-02-03-03	-	-	-	-	-
10-02-07-00	-	-	-	-	-
10-02-08-00	-	-	-	-	-
10-02-09-00	-	-	16.64	16.64	100
10-02-10-00	-	-	-	-	-
10-03-03-00	3,000.00	900.00	1,884.50	984.50	109
10-03-04-00	-	1,900.00	737.66	(1,162.34)	(61.18)

10-03-05-00	-	250.00	258.80	8.80	3.52
10-03-07-10	8,000.00	750.00	1,579.13	829.13	110.55
10-02-12-01	55,000.00	22,000.00	29,120.40	7,120.40	32.37
10.02.12.02	30,000.00	12,000.00	9,908.50	(2,091.50)	(17.43)
10-02-12-03	50,000.00	20,000.00	18,395.24	(1,604.76)	(8.02)
10-04-01-02	14,000.00	14,000.00	15,901.81	1,901.81	13.58
10-04-04-00	15,000.00	21,000.00	20,458.18	(541.82)	(2.58)
10-03-10-00	-	15.00	11.05	(3.95)	(26.30)
10-04-01-01	114,000.00	105,000.00	121,836.21	16,836.21	16.03
10-04-02-01	26,000.00	28,000.00	28,169.49	169.49	0.61
10-04-03-01	62,000.00	60,000.00	47,839.32	(12,160.68)	(20.27)
10-04-03-99	500.00	300.00	8,066.53	7,766.53	2,588.84
10-04-01-04	2,000.00	-	-	-	-
10-04-02-99	18,000.00	15,000.00	10,189.52	(4,810.48)	(32.07)
10-04-01-03	200.00	2,000.00	6,395.74	4,395.74	219.79
20-06-03-00	-	-	-	-	-
10-03-09-00	-	-	22.67	22.67	100.00
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Total	637,700.00	573,115.00	604,252.57	31,137.57	

2.3 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 under Item No.24601 and the actuals 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	81.43	65.00	82.88	400.00	328.09

2.4 Imprest Account

The balances of the Imprest Account No.7002/0000/00/0069/0015/000 of the Department of Inland Revenue as at 31 December 2016 amounted to Rs. 5 million and that balance had been settled on 18 January 2017.

2.5 General Deposit Accounts

The balance of 07 Deposit Accounts of the Department of Inland Revenue as at 31 December 2016 totalled Rs. 994.21 million. Details appear below.

Account Number	Balance as at 31 December 2016
	Rs.
6000/0000/00/0001/0039/000	683,422
6000/0000/00/0002/0052/000	405,700
6000/0000/00/0006/0085/000	23,839,455
6000/0000/00/0016/0004/000	26,669,579
6000/0000/00/0018/0005/000	92,273
6000/0000/00/0019/0010/000	30,444
6000/0000/00/0014/0003/000	942,484,969
Total	**994,205,842**

2.6 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2016, 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 Material and Important Audit Observations

3.1 Non-maintenance of Registers and Books

It was observed during audit test checks that the Department had not maintained the following registers in the proper and updated manner.

	Type of Register	Relevant Regulation
(a)	Register of Liabilities	Financial Regulation 214
(b)	Register of Fixed Assets on Computers, Accessories and Software.	Treasury Circular No.IAI/2002/02 dated 28 November 2002.

3.2 Appropriation Account

The following observations are made.

(a) According to the instructions referred to in Financial Regulation 50 (ii), estimates should have been prepared as completely and accurately as possible. Even though the total expenditure estimate of the Department of Inland Revenue for the year under review amounted to Rs. 3,527 million, as a result of subsequently approved supplementary provisions amounting to Rs.1,038 million, net provision had increased up to Rs.4,565 million by 29 per cent. Accordingly, it was not observed that the expenditure estimate had been prepared as accurately as possible.

(b) Savings of 11.04 per cent out of the total provisions comprising 27.64 per cent of the total net capital provisions and 1.32 per cent of the total net recurrent provisions could be observed as at 31 December 2016. Further, there were savings ranging from 10 per cent to 55 per cent relating to 09 Objects. Accordingly, it was not observed that steps had been taken to use provisions efficiently.

(c) In addition to the estimated provisions of 04 Objects, out of the provisions totalling Rs.699.10 million allocated from the supplementary provisions and transfers from Financial Regulations 66, a sum of Rs.483.25 million had been saved and it had been 69 per cent of the additionally allocated provisions. Accordingly, additionally obtained provisions had not been efficiently and effectively utilized.

(d) In terms of Section 09 of the State Accounts Circular No.252/2016 dated 09 December 2016, the Statement of Financial Performance, Statement of Financial Position and the Cash Flow Statement should be prepared in addition to the Appropriation Account from the year 2016 and presented to the Auditor General with a copy to the Department of State Accounts. Nevertheless, the Department had not taken action accordingly.

3.3 General Deposit Account

The following observations are made

(a) The liquidated damages amounting to Rs. 1.34 million 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 even by 30 April 2017.

(b) Out of the Stamp Duty Revenue collected by the Department during the year under review, a sum of Rs.942.48 million required to be paid to the Provincial Councils had been retained in the General Deposit Account without being remitted to the Provincial Councils even by 30 April 2017.

3.4 Revenue Accounts

The duties relating to the preparation of Revenue Estimates, collection of Revenue, Accounting and the presentation of Accounts relating to 33 Revenue Codes had been assigned to the Head of Department as the Revenue Accounting Officer. The following deficiencies were observed during the course of the audit test check of those Revenue Codes.

(a) The Department of Inland Revenue had granted estimated amounts of Rs.661,011 million and Rs.632,241 million to the Fiscal Policy Department during the year under review in order to include in the Original Revenue Estimate and the Revised Revenue Estimate respectively. Nevertheless, the Fiscal Policy Department had taken action to revise the Original Revenue Estimate as Rs.637,700 million and the Revised Revenue Estimate as Rs.573,115 million. Although it was requested to furnish the matters attributed to revise the estimated amounts given by the Department of Inland Revenue in this manner and the computed extent of the impact of those mattes to audit, the Fiscal Policy Department had not made an adequate explanation in that connection.

Since there was a difference of Rs.64,585 million between the Original Revenue Estimate given by the Fiscal Policy Department and the Revised Revenue Estimate, it was observed that an overestimation of the State Revenue had taken place by an amount equivalent to that difference in the compilation of the National Budget and it had resulted in an underestimation of the budget deficit by that amount. Further, it was observed to Audit that, the actual revenue being Rs.604,252 million, instead of collecting the targeted revenue amounting to Rs.637,700 million given by the Original Revenue Estimate, the Original Revenue Estimate had been revised in the year under review so as to correspond to the collectable revenue.

(c) The actual revenue collection of the year under review amounted to Rs.604,252 million. It was 95 per cent and 105 per cent of the original and revised estimations respectively and the revenue in the year under review was an increase of Rs.79,418 million or 15 per cent as compared with the preceding year. The increase of Rs. 82,700 of two sources of indirect tax, the Value Added Tax (VAT) and Nation Building Tax, had mainly given rise to this improvement of revenue. Nevertheless, the revenue collected by the direct taxes such as Incorporated and Unincorporated Tax and Withholding Tax (Interest) had decreased by Rs.33,396 million in the year under review as compared with the preceding year.

(d) The following matters were observed in connection with Outstanding Tax Returns presented as at 31 December 2016.

(i) Although the revenue in arrears relating to tax and fines totalled to Rs.295,296 million as at the end of the year under review according to the Outstanding Revenue Return, any information whatsoever required to be stated under No. 8 to 14 of the Format D.G.S.A. Revenue-2 in 35 Revenue Accounts presented had not been stated.

(ii) It had been reported that out of the above tax and fines in arrears, only a sum of Rs.28,878 million or 9.8 per cent of the total arrears was recoverable and the recovery of remaining amount of Rs.266,418 million or 90.2 per cent of the total arrears of tax and fines had been temporarily suspended. The reasons attributed to the above temporary suspension and details on several balances of suspended taxes are given below.

Reasons given rise to temporary suspension of the recoveries	Outstanding Tax Balance
	Rs. Millions
Tax appeals	120,636
Taking Court Actions	2,894
Objections	18,838
Errors in the computer system and other matters	66,870

Accordingly, although there was a possibility to settle the balances of Rs.85,708 million temporary suspended by citing the reasons as raising objections, errors in the computer system and other matters, it was further observed that the Department had not taken action to settle those balances.

(iii) The arrears in tax on goods and services amounted to Rs.1,949 milliion. An age analysis thereon had not been furnished to Audit and it was observed that particulars relating to the above balance of tax in arrears had not been documented.

(iv) There was an outstanding balance of Rs.8,134 million relating to 08 cancelled taxes at the beginning of the year under review and a sum of Rs.7,530 million out of that amount further remained unsettled even by the end of the year under review.

(d) The revenue according to the Departmental reports had been overstated by Rs.178.16 million than the revenue indicated in the Treasury relating to the Value Added Tax Control Account

No.1002-01-00. Without taking action to identify the reasons attributed to that difference, that amount had been deducted from the revenue of the Revenue Code No.1002.01.02 as the Refunds and the amount thus deducted in the preceding year had been Rs.203.70 million.

(e) The matters observed on the collection of tax revenue relating to the Casino Industry Levy, Mansion Tax and Migrating Tax vested in the Commissioner General of Inland Revenue by the Finance Act No.10 of 2015 dated 30 October 2015 are indicated below.

(i) Although Casino Industry Levy totalling Rs.4,000 million should have been collected from 04 Casino Industries at Rs.1,000 million each on or before 15 November 2015 in terms of the provisions of the Act, a sum of Rs.400 million only had been collected by the end of the year under review. Accordingly, action had not been taken to recover the sum of Rs.3,600 million further remained receivable during the year under review and action had also not been taken to record them as tax in arrears.

(ii) Although a Mansion Tax amounting to Rs.1 million should have been recovered from every owner of a mansion constructed on or after 01 April , 2000 for every year commencing on or after 01 April , 2015, since directives relating to the implementation of those provisions had not been made in terms of Sub-section (4) of Section 25 of the Act, no recovery whatsoever had been made even in the year under review.

(iii) Provisions have been made to levy, with effect from 01 November, 2015, from any citizen of Sri Lanka who permanently leaves Sri Lanka, a Migrating Tax at the rate of twenty per centum on the foreign exchange released to be taken out of the country by such citizen and a sum of Rs.11 million had been so collected as Migrating Tax during the year under review. Nevertheless, the Department had not paid attention to formulate a mechanism or methodology, in collaboration with the Department of Immigration and Emigration and the Department of Foreign Exchange Control, to identify the persons who permanently leave the country and to increase tax base by determining the foreign exchange taken out of the country by such persons.

(iv) Levy of a Motor Vehicle Importers Licence Fee had been introduced in terms of provisions of the Finance Act No.10 of 2015. In accordance with the Budget Proposal, 2016, it had been decided to charge a Vehicle Entitlement Levy from the motor vehicle importers instead of the Motor Vehicle Importers Licence Fee with effect from 01 January 2016 subject to the amendments made to the said Act, and the authority of the recovery of the same had been vested in the Commissioner General of Inland Revenue. Further, the Department had instructed the banks to recover this tax at the time of opening of the Letter of Credits for the import of vehicles and remit them to the Commissioner General of Inland Revenue. Accordingly, a sum of Rs.157.91 million had been collected as the Vehicle Entitlement Levy during the year under review, whereas amendments relevant to the Finance Act No.10 of 2015 had not been made. Further, in carrying out computation based on the details obtained from the Sri Lanka Customs and the amount of Vehicle Entitlement Levy with regard to the number of motor vehicles imported during the year under review, it was observed that a sum of Rs.2,427.11 million could have been earned as the Vehicle Entitlement Levy if this tax had been levied by the Sri Lanka Customs instead of levying by the banks.

(f) Imposition of a 25 per cent surcharge from the taxes revenue on liquor, tobacco, betting and gamming had been proposed according to the Budget Proposal, 2016 and thereby a revenue of Rs. 2,000 million had been estimated. Nevertheless, as relevant Act and Ordinance had not been amended, the surcharge tax revenue had not been collected during the year under review.

(g) Of the Value Added Tax and Nation Building Tax collected by Sri Lanka Customs, a sum of Rs.2.28 million and Rs.10,066.55 million respectively had been refunded to the taxpayers. Nevertheless, the Department had not taken action to obtain registers, records or confirmations relevant thereto from the Department of Customs and thereby confirm the accuracy of the amount thus refunded.

3.5 Reconciliation Statement relating to Advances to Public Officers Account

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The following deficiencies were observed during the course of audit test check carried out on the Reconciliation Statement as at 31 December 2016 on the Advances to Public Officers Account Item No.24601.

(a) Balance of Property Loan amounting to Rs.191,514 due from a female officer who had died on 18 September 2012 had remained unrecovered even by the end of the year under review.

(b) As action had not been taken to take over the Attorney Power of an employee by taking steps to write the deed of the land in his favour while he was in the service, it had not been possible to recover the Property Loan amounting to Rs.252,045 due from that employee who had vacated the service in the year 1999.

(c) Action in terms of Financial Regulation 110 had not been taken with respect to irrecoverable loan balances of Rs.230,534 which had elapsed a period of 20 years as at 31 December 2016.

(d) In obtaining property loan according to Section 11.14 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, the Department should take adequate steps regarding the safety of the deeds and power of attorney letters obtained as securities from the officers for the relevant purpose. Nevertheless, 47 deeds informed to have been kept in a safe by the Department could not be found in the safes at the time of audit test check. Department had reported that the said documents had been handed over to the officers concerned as the loan amount had been settled. However, written evidence to the effect that the above officers had settled the loan amount or the deeds had been obtained by the above officers had not been furnished to audit.

3.6 Good Governance and Accountability

Annual Procurement Plan

Even though a Procurement Plan had been prepared in accordance with the provisions of the Procurement Guidelines, it was observed in audit that there were instances where procurements had not been done as planned within the prescribed period. The procurement activities relating to the purchase of 4 scanners for the Revenue Administration Management Information System and 500 computers can be cited as the examples. The following matters were observed during the course of audit test check carried out on the procurements.

(a) The registration of taxpayers and acceptance of tax returns through Revenue Administration Management Information System (RAMIS) had been commenced in the year under review and the Department had decided to purchase 500 computers expeditiously for that purpose. As annual provisions were inadequate, additional provisions amounting to Rs.50 million had been allocated therefor by the Treasury, whereas procurement activities had not been completed even by the end of the year under review. As a result, it had not been possible to complete 56,400 Work Items assigned to the officers.

(b) For the maintenance of Dambulla Regional Office of the Department, a building had been obtained on monthly rental of Rs.320,000 for a period of 3 years from August 2016. Nevertheless, it was observed that the said building was not in conformity with the prescribed specifications.

3.7 Assets Management

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

(a) Idle Assets

It was observed during the course of audit test check that the following categorized assets had remained idle.

	Category of Assets	Number of Units	Idle/Underutilized period
(i)	Transformer	02	From the year 2009 up to 31 July 2017, the date of audit. (Those had been supplied during the modernization of the building of the Department of Inland Revenue)

(ii)	CCTV Camera	70	From the year 2010 up to 31 July 2017, the date of audit. (Although such cameras had been installed in the floors of the Department of Inland Revenue during the modernization of the building, those had not been utilized)

(b) Accounts Receivable

In order to take over a block of land of 100 perches in extent situated at Sangaraja Mawatha, Colombo 12 owned by the Building Materials Corporation to the Department of Inland Revenue, a sum of Rs.50 million had been paid on 28 February 2008, whereas taking over of that property had been abandoned subsequently. Nevertheless, the advance paid thereon had not been recovered even by 24 October 2017.

3.8 Performance of the Revenue Administration Management System (RAMIS)

In the year under review, the Department had commenced the administration activities of several taxes including Corporate Income Tax, Value Added Tax and Nation Building Tax through the RAMIS system. The matters observed during the course of audit test check carried out relating to its operations are given below.

(a) About 66,001 tax returns relating to the tax categories of Value Added Tax , Corporate Income Tax, Withholding Tax, PAYEE Tax and Nation Building which should have been submitted by the taxpayers relating to the year under review in terms of the provisions of the Value Added Tax Act, No.14 of 2002, Inland Revenue Act, No.10 of 2006, and the Tax Act No.09 of 2009 had not been submitted to the Department even by 31 December 2016. In case of failure to submit the relevant reports by the taxpayers, legal action should have been initiated against the relevant taxpayers in terms of Section 21 of Chapter III of the Value Added Tax No.14 of 2002, Section 202 of Chapter XXIX of the Inland Revenue Act, No.10 of 2006 and Section 8 of the Tax Act No.9 of 2009, whereas action had not been taken accordingly even by 24 October 2017.

(b) Although acceptance of Value Added Tax returns, Nation Building Tax returns and the taxes upon returns relating to the year under review had been carried out through the system, instances were observed that certain taxpayers had paid tax after the due date contrary to the provisions of the Acts. In terms of the provisions of the Act, although fines should be charged from the taxpayers for their delay in the payment of tax, evidence had not been made available to audit to establish that fines had thus been charged. According to the computation made at the audit, the fines relating to Value Added Tax and Nation Building Tax, the recovery of which was not confirmed amounted to Rs.503.3 million and Rs.134.8 million respectively.

(c) The shortcomings identified by the system regarding the information and returns furnished by the taxpayers relating to the tax categories controlled under the Revenue Administration Management System (RAMIS) and the work items relevant to the matters needing further examination are referred to the officers by the system itself.

Nevertheless, 56,418 work items thus referred to the officers during the year under review had not been duly completed and as such, it was observed in audit that the objectives expected by the installation of computer system had not been achieved. It was observed to audit that out of uncompleted work items, 25,565 work items related to Value Added Tax and 19,356 related to Corporate Income Tax. As the work items had not been thus completed, it was observed that the activities of the computer system, too, were not taking place timely.

3.9 Transactions of Contentious Nature

Certain transactions entered into by the Department had been of contentious nature. Particulars of several such instances observed during the course of test checks appear below.

(a) 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, the Department had implemented a methodology of automatically computing and reporting the tax in arrears and the relevant fines with the use of computers up to 31 March 2012, whereas that methodology had been discontinued from 01 April 2012. As a result, although money had not been paid for tax returns totalling Rs.15,283.31million submitted by the taxpayers during the tax period from 01 April 2012 to 31 December 2015 relating to the Value Added Tax and the Nation Building Tax, assessment reports relating to that had not been issued. Accordingly, it was not established to audit that a balance in arrears totalling Rs.24,520.98 million comprising this tax in arrears and the fine computed thereon amounting to Rs.9,237.67 million had been recovered even by 31 December 2016 and the Department had not taken action to report them as arrears of tax.

(b) In terms of the provisions of the Inland Revenue Act, the defaulted tax can be recovered in installments only upon a verdict returned by a Magistrate. Nevertheless, contrary to that, Divisions of the Department of Inland Revenue and 35 Regional Offices had made opportunities for 918 taxpayers to settle the tax in arrears of Rs.8,914 million in installments by May 2016. It is observed that the failure in collecting the State Revenue in time adversely affects the state fiscal management.

3.10 Transactions in the Nature of Financial Fraud

The particulars of transactions of fraudulent nature observed during the course of audit test check are given below.

(a) Even though the officers of the Department had been given annual targets for the collection of additional tax , it was established according to the relevant reports that some officers had not achieved the prescribed targets. These targets had been mainly made use as basis for the incentive scheme of the Department. It was revealed at the audit test check carried out relating to the years 2014,2015 and 2016 that the value of targets thus not achieved or the amount not accumulated to the State Revenue as the additional tax amounted to Rs.4,652 million. However, when obtaining incentives by the officers, such incentives had been obtained by reporting that the above targets had been achieved.

(b) The Department had reported to the Criminal Investigation Department that about a sum of Rs.129.03 million had been fraudulently obtained by altering the data of the computer system. Similarly, in the year 2013, the Court had given an order to the Computer Study Institute of the University of Colombo to check the supporting files of the relevant computer system and submit a report. Accordingly, the Department had paid a sum of Rs.1.4 million to the Computer Study Institute in order to carry out the relevant activity, whereas the Computer Study Institute of the University of Colombo had failed to furnish the report required to discover financial fraud according to the court order. As such, money thus paid had become an uneconomic expenditure. Inspections relating to the financial fraud had not been completed even as at the end of the year under review.

3.11 Unresolved Audit Paragraphs

Reference to the audit paragraphs relating to the Department included in the Reports of the Auditor General of which deficiencies pointed out by the audit paragraphs had not been rectified by the Department is given below.

Reference to Report of Auditor General		Subject under reference
Year	Paragraph Number	
2015	3.7	Out of Rs.1,437 million estimated for the modernization 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. Although that construction should have been completed before 31 December 2014, it had not been completed even by 30 June 2017.

3.12 Management Weaknesses

The following weaknesses were observed at the audit test checks.

(a) Even though an annual increase of the tendency of becoming dishonoured the checks given by the lessors to the Department of Inland Revenue was observed, adequate measures had not been taken to correct it. It was observed that the recovery of money relating to the dishonoured cheques had been carried out at slow pace. The number of cheques thus dishonoured by 31 December 2016 had been 5,936 and the value thereof amounted to Rs.1,976 million.

(b) According to the information made available to Audit by the Legal Division of the Department, it had been reported that there were 367 court cases initiated for the recovery of arrears of revenue as at 30 May 2016. Nevertheless, according to the information given by various Divisions of the Department and 36 Regional Offices to Audit, that number stood at 1,520. Accordingly, although there was a separate Legal Division established in the Department, that Division had not taken adequate steps to coordinate the matters on the cases relating to the tax in arrears existed in the Head Office and the Regional Offices. Therefore, evidence could not be found in the Legal Division to establish that the certain cases had been filed by following the proper procedures. Further, there was no evidence in the Legal Division to establish that the certain cases reported to have been filed by the regional offices had been actually filed. According to the judgement delivered, the Legal Division had not handled the follow up actions to make sure whether the tax in arrears was properly paid by the relevant parties. According to the information that could be obtained, the arrears of tax remained receivable relating to 413 cases thus filed had been Rs.1,771 million.

(c) It is observed that since expeditious action is not taken on the appeals received by the Department, tax revenue receivable to the Government is not timely received and it is a favourable position relating to the taxpayers party. What was observed according to the information furnished to audit at the audit test check conducted on 06 sectors of the large scale taxpayers existed under the Department that, out of 594 tax appeals received relating to additional assessments issued for the Income Tax, Value Added Tax and Nation Building Tax pertaining to 03 assessment years from the assessment years from 2012/13 to 2014/15, only 9 appeals had been solved. According to the information that could be obtained, value of the appeals received amounted to Rs.53,804 million and the value of appeals resolved amounted to Rs.67 million. Out unresolved appeals, 427 appeals of assessment value amounting to Rs.47,457 million represented the large scale taxpayers sector and 63 appeals of assessment value amounting to Rs.5,476 million were yet to be solved under the Commissioner General.

(d) It was observed that the Department's mediation with regard to the annual budget proposals presented on the State Revenue management was not at an adequate level. Although 18 budget proposals had been presented relating to the Department of Inland Revenue for the increase of the State Revenue in the year 2016, only 04 out of the above proposals had been implemented. Accordingly, it is observed that an adequate contribution had not been made by the annual budget proposals in the achievement of proposed revenue targets.

(e) For the settlement of a defaulted tax of Rs.125,206 million as at 31 December 2009 in terms of Provisions of the Settlement of Defaulted Tax (Special Provision) Act, No. 16 of 2010, a new division named Defaulted Tax Recovery Division had been established and the relevant activity had been assigned to that Division. Further, although additional provisions had been made by the Settlement of Defaulted Tax (Special Provision) Amendment Act, No. 14 of 2014 for the recovery of these arrears of tax, Department had taken action to recover only an arrears of tax of Rs.82,971 million as at 31 December of 2016. The balance further remained recoverable amounted to Rs.42,235 million. Further, according to the provisions of the Act, permission had been granted to settle a tax in arrears amounting to Rs.365 million due from 4 taxpayers in installments in the year 2013, whereas the Department had taken action to recover only a sum of Rs.6 million of that amount even by the end of the year under review. Accordingly, it was observed that the Department was taking action at slow pace in the implementation of provisions of the Act.

(f) It had been a prime objective of the Department to develop infrastructure facilities of the regional offices by modernizing and renovating those offices and thereby increase the means of revenue generations. Accordingly, a sum of Rs.40 million had been allocated for the modernization and renovation of regional offices during the year under review, whereas Rs.22 million out of the above provisions had not been spent even by the end of the year under review. Since the savings of provisions in this manner had been reported in the preceding years as well, it was observed that action had not been taken to achieve the objectives expected from the provisions received by the Department.

(g) The threshold of the Value Added Tax had been increased up to Rs.3.75 million for a quarter or Rs.15 million for a year with effect from 01 January 2013. With the increase of the threshold of tax as indicated above, the Department of Inland Revenue had taken action to eliminate more than 17,000 taxpayers from the tax base and the relevant tax files ,too, had been temporarily inactivated. Nevertheless, action had not been taken to cancel the registration of those taxpayers and bring back the already issued registration certificates on Value Added Tax to the Commissioner General of Inland Revenue. As revealed at the audit test check, although Value Added Tax of Rs.7.55 million had been collected from such 27 inactivated taxpayers and 10 Government Institutions, submission of tax returns and remittance of tax to the Department had not been carried out.

(h) As per the information collected by the Department by various ways, by calling returns from persons and institutions according to Section 106 (7) of the Inland Revenue Act No.10 of 2006 and opening new tax files on the information of those returns, the expansion of the tax base and increase of the tax revenue had been an objective of the Department. An Information Unit as well had been established in the Department for that purpose. According to the information made available to audit, although 33,139 "I V Returns" had been sent to various persons and institutions in the year 2015, only 20,665 returns out of them had been received by the Department. Accordingly, 12,474 returns had not been received by the Department and evidence was not made available to Audit that action had been timely taken according to the provisions of the Act in respect of the returns thus not received. Similarly, although "I V Returns" received by the Information Unit had been distributed to the other Divisions of the Department and the Regional Offices, there was no methodology in the Information Unit of the Department to examine whether new tax files had been opened by the Regional Offices based on those information.

3.13 Human Resource Management

Approved Cadre and Actual Cadre

(a) The position of the cadre as at 31 December 2016 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	1,247	1194	53	
(ii)	Tertiary Level	36	30	06	-
(iii)	Secondary Level	1,055	906	149	-
(iv)	Primary Level	437	410	27	-
(v)	Others (Casual/ Temporary/ Contract basis)	-	02	-	02
	Total	**2,775**	**2,542**	**235**	**02**

(b) The total vacancies of the Department as at 31 December 2016 stood at 235 and out of that, 53 vacancies had been of the officers in the Inland Revenue Service. Further, the number of vacancies of the supporting staff had been 182. Tax files had been separately assigned to the Officers of the Inland Revenue Service for examination and the officer was required to carry out their audit activities and collect additional tax according to the targets given. Accordingly, it was observed in audit that the existence of vacancies of the officers exerts a direct impact on the collection of additional tax.

(c) In the year under review, 63 per cent officers of the Inland Revenue Service had been attached to the Head Office while 37 per cent officers had been attached to the Regional Offices. Although 96 per cent of the total revenue earned by the Department had been collected by the officers attached to various Divisions of the Head Office, only 4 per cent had been collected by the Regional Offices. Accordingly, it was not observed in audit that the attachment of officers of the Inland Revenue Service to various Divisions had been carried out with the objective of promoting the collection of revenue.

(d) Some data relating to the years 2014 and 2015 on the number of tax files existed under three units relating to large taxpayers and the number of officers of the Inland Revenue Service attached for the examination of those files are given below.

Unit	No. of officers who had been assigned tax files	No. of tax files existed in the Division	No. of files audited for reporting pretax in the year 2014 and 2015	Pretax reported in the years 2014 and 2015
				Rs. Millions
Unit 8	11	450	172	3,880.16
Unit 6A	10	409	126	2,751.08
Unit 6c	15	567	131	18,696.54
	36	1426	429	25,327.78

According to the above data, there were 1,426 tax files in 03 units and audit of those files had been assigned to 36 officers. Accordingly, audit activities of about 40 files had been roughly assigned to a single officer. Nevertheless, it had been reported that having audited about 12 files by one officer during the period of relevant two years, additional tax and fines of Rs.25,327.78 million had been collected from 429 tax files. Accordingly, it was not observed that the Department had paid adequate attention to attach officers so as to audit more number of flies of the Large Taxpayers Units in this nature and thereby increase the additional tax revenue.