

Inland Revenue Incentive Fund - 2017

The audit of financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 and Income and Expenditure Account, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations on the above Financial Statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Inland Revenue Incentive Fund as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Significant accounting policies adopted in preparing and presenting financial statements had not been disclosed.

2.2.2 Accounting Deficiencies

A sum of Rs.619,500,000 provided for the payment of incentives to the staff of the Department of Inland Revenue by the Treasury and sums totalling Rs.641,728,651 incurred for the payment of intensive and the welfare expenditure had not been brought to account in the Fund. Instead, these transactions had been made through the General Deposit Account maintained for the payment of intensive.

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

The following observations are made.

Reference to Laws, Rules, and Regulations	Non- compliance
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(a) Public Finance Circular No.PF/423 of 22 December 2006	
Paragraph 04.3	The Performance Report which should be furnished together with the financial statements had not been presented to the Auditor General within 2 months of the close of the year of accounts.
(b) Inland Revenue Act No.10 of 2006 Section 210 (4)	A procedural rule had not been formulated for the administration of the Fund.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year ended 31 December 2017 had resulted in a surplus of Rs.1,070,639 as compared with the corresponding surplus of Rs.1,017,117 for the preceding year, thus showing an improvement of Rs.53,522 in the financial results in the year under review as compared with the preceding year. The above improvement was mainly attributed to the increase in the interest income by Rs.50,877 as compared with the preceding year.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Inland Revenue Incentive Fund had been established under Section 210 (1) of the Inland Revenue Act, No.10 of 2006 and according to Section 210 (3) of the above Act, the payment of money for the welfare and incentive of the officers in accordance with a scheme approved by the Minister had been stated as a key function of the Fund. The following observations are made on the implementation of the above activities.
 - (i) In terms of Section 210 (2) of the Act, provisions made by the Treasury for the payment of incentive of the officers should be credited to the Fund and the payments should be made through the Fund. Nevertheless, contrary to that, payment of incentive had been made through a General Deposit Account of the Department. Accordingly, objective of the establishment of the Fund had not been achieved and the Fund remained inoperative.
 - (ii) Money granted to the Fund by the Treasury from time to time for the payment of incentive had been deposited in the State Mortgage and Investment Bank and Housing Loan Fund had been established for granting housing loan to the officers. The accumulated balance comprising the deposited money and annual interest earned totalled Rs.34,168,567 as at 31 December 2017. Nevertheless, any loan had not been granted to the officers out of the Housing Loan Fund during the year under review and the preceding 05 years and the Management had not drawn attention in this connection.

5. Accountability and Good Governance

5.1 Budgetary Control

A Budget for the Fund had not been prepared for the year under review as required by Section 4.1 of the Public Finance Circular No. PF/423 dated 22 December 2006.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Inland Revenue from time to time. Special attention is needed in respect of the following areas of control.

Area of Control

(a) Accounting

(b) Control of Funds

Weakness in brief

Failure in adopting a proper method of accounting income and expenditure of the Fund.

Not operating the Revolving Loan Fund with the use of deposit maintained in the State Mortgaged and Investment Bank.