

Head 246 - Department of Inland Revenue

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Inland Revenue for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Department of Inland Revenue was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 . The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the Department of Inland Revenue as at 31 December 2018 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is responsible for preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the

National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- It is not intended to express an opinion on the effectiveness of internal control of the Department of Inland Revenue to plan appropriate audit procedures in a timely manner.
- Evaluate the structure of financial statements including disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- The transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) As there was no need to prepare financial statements for the previous year, it was impossible declare the financial statements for the year under review were consistent with those of the previous year.

- (b) As there was no need for the Department of Inland Revenue to prepare financial statements for the previous year, the recommendations for the financial statements had not been presented.

1.6 Comments on Financial Statements

1.6.1 Financial Statements not complied with Circulars

Even though the financial statements should have been prepared in accordance with the Public Accounts Circular No. 267/ 2018 dated 21 November 2018, exceptions to those requirements are as follows.

Audit Observation	Recommendation	Comments Given by the Accounting Officer
-----	-----	-----
(a) The Budgeted figures of the year 2018 relating to revenue receivable had not been appeared in the financial statements in terms of Paragraph 3.1 of the Public Accounts Circular No. 267/ 2018 dated 21 November 2018 .	Financial statements should be prepared including all the information in terms of the provisions of the Circular.	The answers were not given
(b) It had not been shown the details relating to the collection of arrears revenue in the ACA-1 Format of the financial statement format introduced by the above Circular and the arrears of taxes balances in the Format ACA-1 (i) at the beginning of the year . Further, the arrears of taxes had not been classified as per Revenue Codes.	The financial statements should be prepared including all the details in the Format of financial statements in terms of the Circular.	

1.6.2 Statement of Financial Performance

The following observations are made in this regard.

Audit Observation	Recommendation	Comment Given by the Accounting Officer
-----	-----	-----
(a) The revenue on Value Added Tax collected by the Department is credited to the Control Account maintained in the Treasury. The money so credited is being accounted for the three Tax Revenue Codes	The revenue should be correctly identified and classified according to Codes and credited to the accurate Revenue	Two months period has been requested for providing the answer.

such as Financial Services, Other Services and Products through Monthly Summaries. After taking in to accounts through Monthly Summaries, the amount remained in the Control Account at the end of the year under review amounted to Rs. 8,606,788 had been credited through a transfer form to the Value Added Tax Other Services Revenue Code without identifying it as per the Revenue Codes. Accordingly, due to not identified the accuracy of the three Revenue Codes, the accuracy of Net Revenue of three Revenue Codes was not confirmed in audit.

Code.

- (b) Even though the Share Transaction Tax collected during the year under review was Rs.1,196,346,653 as per the financial statements, since that value was Rs. 1,200,413,567 as per the information obtaining from the Colombo Stock Exchange and submitted by the Department for audit, there was an unreconciled value of Rs. 4,066,914 . It was not observed that the reasons for that difference had been identified and corrected.
- (c) Even though the Vehicle Entitlement Tax of the year under review was Rs. 2,695,261,000 as per the calculation made by audit based on the information provided by the Department on the number of opened letters of credit relating to the Vehicle Entitlement Tax as per the vehicle category, thus the Vehicle Entitlement Tax amounted to Rs. 2,191,685,363, a difference of Rs. 503,575,637 was observed.
- (d) It was observed that steps had not been taken timely to identify and correct the changes in money credited to the Treasury through Revenue Collection Bank Accounts in comparison with the bank account

The Revenue credited in to Collection Account should be compared with the reports and the discrepancies revealed should be addressed to relevant Divisions and resolved in a timely manner.

It was informed that this change could occur as the month-end receipts will be taken in to accounts at the beginning of next month.

There are differences between the monthly tax credit and the reports obtained from the Department of Customs and it had been reported that action would be taken to identify the relevant reasons.

It had informed that the relevant shortcomings should be referred to the officers as work items and it would take about 2 months to complete

statements.

them.

1.6.3 Statement of Financial Position

(a) Fixed assets

The following observations are made in this regard,

Audit Observations

A Register of Fixed Assets had not been maintained in an updated manner in accordance with Section 502 (2) of the Financial Regulations and the value of the property, plant and equipment had been shown in the financial statements for the year under review based on information obtained from the CIGAS Programme without proper verification by conducting Board of Survey. Nevertheless, the documents consisting the information obtained from the CIGAS programme had not been submitted to audit.

Recommendation

Conducting Board of Survey and verify all the assets and compare them with the reports obtained from the CIGAS computer system or the Register of Fixed Assets and shown in financial statements by verifying the accuracy.

Comments Given by the Accounting Officer

That an updated report would be submitted to audit by 31 July 2019.

(b) Reconciliation Statement of Advances to Public Officers' Account

The following observations are made.

Audit Observations

(i) The arrears loan balances of four deceased and the officers who had vacated their posts totalled to Rs. 614,335 had not been settled even by the end of the year under review.

(ii) The loan balances remained outstanding for more than 20 years totalled to Rs. 189,773 and any file or document related to those

Recommendation

Taking immediate steps to recover arrears loan balances.

To Find the relevant details and obtaining the details of the creditors and take action to recover

Comments Given by the Accounting Officer

Steps would be taken to recover the loan balances by taking legal actions.

The enquires were made from the related Divisions of the Ministry of Finance in respect of the

credit balances were not furnished to them.
audit.

destruction of the files due to the terrorist attack occurred in the year 2008 and the measures to be taken in future.

(c) Deposits

The following shortcomings were observed at the instances of deposit payments related to financial statements and the balances taken in to accounts.

Audit Observations	Recommendation	Comments Given by the Accounting Officer
-----	-----	-----
(i) It was observed that the actions had not been taken with regard to deposit balances remained in 04 General Deposit Accounts for more than 02 years totalled to Rs. 714,562,813 in terms of Section 571 (2) of the Financial Regulations.	Actions should be taken in accordance with Financial Regulations.	The balance to be settled further as at 31 May 2019 was reported as Rs. 464,562,814 after settling the relevant balances.
(ii) Although all receivables those can be recognized under the Specified Revenue Codes must be credited to the respective Revenue Code in accordance with Sections 5.1 (a) and 5.2 of Public Accounts Circular dated 24 June 2015, the total receipts of Rs. 1,141,170 had been retained in a General Deposit Account until the end of the year under review without being credited to the relevant Revenue Code.	Actions should be taken in terms of the Circular.	It was informed that the matter would be settled immediately.

1.6.4 Statement of Arrears of Income

The following observations are made in this regard.

Audit Observations	Recommendation	Comments Given by the Accounting Officer
<p>(a) Although there were arrears of taxes with regard to Value Added Tax (Financial Services) and Nation Building Tax (Financial Services) amounted to Rs.11,797,951,411 and Rs.581,903,358 respectively according to Arrears of Tax Returns of preceding year, these balances had been omitted whilst preparation of the financial statements for the year under review.</p>	<p>Establish control procedures to ensure that the balance of the accounts are not omitted whilst preparation of financial statements and Arrears of Tax Returns.</p>	<p>It was informed that a revised arrears of Tax Returns will be submitted by including the arrears balance.</p>
<p>(b) Even though the Casino Industry Income Tax totalled to Rs. 4,000 million from 04 Casino Businesses as Rs. 1,000 million from each should be collected on or before 15 November 2015 in terms of the provisions of the Finance Act No. 10 of 2015 , out of that only a sum of Rs. 1,025 million had been collected even by the end of the year under review. Accordingly, a sum of Rs. 2,975 million further to be recovered had not been reported as default tax in the year under review.</p>	<p>The collection of default tax in accordance with the provisions of the Act and all default tax should be included whilst preparation of financial statements.</p>	<p>Progress of tax collection has been reported.</p>
<p>(c) The total of the gross arrears and penalty amounted to Rs 1,608.2 billion as at the end of the year under review as per the Default Tax Report submitted for the audit. Of that amount, only a sum of Rs. 287.5 billion which had identified as taxable arrears had been shown as default tax as at the end of the year under review. The details of default tax amounted to Rs 1,320.6 billion whereas the charges that had temporarily suspended had not been disclosed in the financial statements.</p>	<p>That the basis for reporting arrears in the financial statements should be disclosed in the Accounting Policies and temporarily suspended arrears and the amount of the fine should be disclosed in the financial statements.</p>	<p>The Default Tax Report furnished by the Department as at 31 December 2018 along with defects.</p>

1.6.5 Non-availability of Documents and Books

The certain documents appear below had not been maintained by the Department and it was observed at audit test checks carried out the certain documents were not maintained properly in an updated manner.

Audit Observation

Recommendation

Comments Given by the Accounting Officer

Register of Receipts

Even though a Register of Receipts had been maintained in accordance with Financial Regulation 341 that had not been updated.

A Register of Receipts should be maintained in an updated manner in accordance with Format G.A.N 20 in terms of the Financial Regulation 341.

It has been informed that the Register of Receipts will be maintained based on the existing balance.

Attendance Register of Procurement Committee and Technical Evaluation Committee

An Attendance Register had not been maintained by the Secretary of the Committee in accordance with Guideline 2.11.2 of the Government Procurement Guidelines.

The Secretary of the Committee shall maintain an Attendance Register in accordance with Guidelines 2.11.2 of the Government Procurement Guideline.

It has been informed that a Register is being maintained from January 2019.

1.6.6 Lack of Evidence for Audit

The following audit evidence was not furnished.

Audit Observations

Recommendation

Comments Given by the Accounting Officer

The answers had not been furnished by the Department even by 31 March 2019 for 06 audit queries issued in the year under review and the value of countable transactions pertaining to those queries was Rs. 67,676,679.

The Accounting Officer shall review the Register of Audit Queries referred to Financial Regulations 452 (1) periodically in terms of Financial Regulations 155 and actions should be taken to rectify shortcomings pointed out in the audit queries received and those queries should be answered immediately. If there are queries that may be delayed, actions should

An interim answer has been given and work items were issued to the officers to conduct examination regarding the taxpayers related to the audit query .

be taken to send an interim report.

1.6.7 Certifications that should be made by the Accounting Officer

Although the Accounting Officer should certify about the following matter in respect of the provisions of Section 38 of the National Audit Act, No. 19 of 2018, actions had not been taken accordingly.

Observation	Recommendation	Comments Given by the Accounting Officer
<p>-----</p> <p>The Chief Accounting Officer and Accounting Officer should ensure that an effective internal control system for the financial control exists and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Even though such reviews should be made in writing and submitted a copy to the Auditor General, statements that such reviews were made had not been furnished to audit.</p>	<p>-----</p> <p>Actions should be taken in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>	<p>-----</p> <p>A report has been prepared as per the instructions of the Department of Management Audit.</p>

2. Financial Review

2.1 Revenue Management

The following observations are made.

Audit Observation	Recommendation	Comments Given by the Accounting Officer
<p>-----</p> <p>(a) Revenue Accounting Officers should endeavor to make their Revenue Estimates as realistic and accurate as possible in accordance with Financial Regulation 85 (1) (c) and 128 (2) (a). Nevertheless, even though the Annual Revenue Estimate of the Department of Inland Revenue for the year under review was Rs. 1,028 billion the actual collection was Rs. 853.9 billion, and a variation of Rs. 174.1 billion remained and that was 16.9 per cent of the Estimated Revenue. Accordingly, it was</p>	<p>-----</p> <p>Taking actions as per the Financial Regulations and preparing the Revenue Estimates as accurate as possible.</p>	<p>-----</p> <p>The Treasury provides Basic Revenue Estimates.</p>

observed that the Estimation of Revenue was not properly made.

- | | | |
|--|---|---|
| <p>(b) Although the Revenue had not been estimated under 05 Revenue Codes by the Department, a Revenue of Rs. 156.1 million had been collected under those 5 Revenue Codes by the end of the year under review.</p> | <p>Actions should be taken to prepare the Revenue Estimates as accurate as possible complying with the Financial Regulations .</p> | <p>Only arrears of tax and fines are levied under these Revenue Codes.</p> |
| <p>(c) As per the Default Tax Report furnished to the Auditor General as at 31 December 2018, the balances of default tax and the penalties suspended in the Legacy System had decreased by a sum of Rs. 162.7 billion from Rs. 291.6 billion to Rs. 128.8 billion as compared to the previous year. Nevertheless, there were no default tax balances suspended preceding year within the in the new Tax Administration System and that balance had increased up to Rs. 1,191.7 billion by the end of the year under review.</p> | <p>The temporarily suspended arrears of taxes should be checked the facts that led to their suspension and promptly resolved.</p> | <p>Actions are being taken to recover the arrears of taxes remained under the Legacy System and not reporting the taxes suspended in the preceding year relevant to the new Tax System.</p> |
| <p>(d) According to arrears of Tax Returns, the recoverable amount under the Legacy System as at the end of the year under review had increased from Rs. 32 billion to Rs. 147.2 billion as compared to the previous year and , the recoverable tax balance of the new Tax Administration System (RAMIS) increased from Rs. 17.8 billion to Rs. 140.3 billion. Although the recoverable tax amount had increased, it was observed that the Department had not taken prompt steps to recover them.</p> | <p>Arrangements should be made to recover the recoverable arrears of taxes promptly.</p> | <p>Actions for the recovery of arrears of taxes are being implemented .</p> |
| <p>(e) Although the increase of the recoverable arrears of taxes for the year under review as compared to the preceding year it should be maintained less than 3 per cent or less than Rs. 23.7 billion in terms of Section 12 of the Default Taxes (Special Provisions) Act No. 16 of 2010, that balance in the year under review was Rs. 130.5 billion. Accordingly, it was observed</p> | <p>To act in accordance with the provisions of the Act and to recover the recoverable arrears of taxes that may be levied and to comply with the Act.</p> | <p>Actions will be taken to amend the arrears of Tax Returns as at 31 December 2018, since consist of defects.</p> |

that the Commissioner General of Inland Revenue had not complied with the provisions of the Act.

- | | | |
|---|--|--|
| <p>(f) Provision to levy a 20 per cent emigration tax was enacted on the foreign exchange that was released to the every Sri Lankan citizen who leaves the country permanently to take out of the country with effect from 01 November 2015 and a sum of Rs. 16,682,442 had been collected as emigration tax in the year under review. Nevertheless, any attention had not been drawn by the Department to develop a mechanism or a methodology to identify the number of people who permanently leave the country and determines the amount of foreign exchange they can take out of the country to increase the tax revenue in conjunction with the Department of Immigration and Emigration and the Exchange Control Department.</p> | <p>Action should be taken to establish a method to identify the tax base accurately.</p> | <p>A mechanism is being prepared to identify the tax base.</p> |
|---|--|--|

2.2 Expenditure Management

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Accounting Officer
-----	-----	-----
<p>(a) Even though the Accounting Officer is responsible for the preparation of Annual Expenditure Estimates as fully and accurately as possible in terms of Financial Regulation 50 (II), it was observed that the provision of 10 Expenditure Objects of Budget Estimates had been changed ranging from 13 per cent to 125 per cent by obtaining additional provisions and making transfers as per Financial Regulation 66 & 69 in the year under review .</p>	<p>Estimates should be prepared as accurately and fully as possible doing in accordance with financial regulations</p>	<p>Matters such as non-availability of requested funds, doing within the provisions limit, inability to make first quarter payments on Capital Expenditure Objects were affected for the saving of provisions.</p>
<p>(b) Out of the net provision totalled to Rs. 15.5 million made available from the</p>	<p>The Action Plan and the Procurement Plan should</p>	<p>The reasons such as non-occurrence of repairs in</p>

Estimate of the year under review for the 3 Capital Expenditure Objects any amount had not been utilized. Further, since out of the net provision totalled to Rs. 1,456.6 million provided for 06 Capital Expenditure Objects and 04 Recurrent Expenditure Objects only a sum of Rs. 739.2 million had been utilized the savings had been a sum of Rs. 717.3 million and those savings had ranged from 11 per cent to 68 per cent of net provisions.

be properly prepared and utilization of the allocation effectively.

the form of capital and non-completion of procurement activities had affected the savings of provision.

2.3 Deposit Balances

The following observation is made.

Audit Observations

The Stamp Duty Revenue received during the period from the year 2016 to 31 December 2018 totalled to Rs. 2,813.8 million had been kept in a General Deposit Account without remitting it to the Provincial Councils.

Recommendations

The funds retained in the Deposit Account should be remitted to the Provincial Councils.

Comments Given by the Accounting Officer

A sum of Rs. 500 million from this balance that have been settled by 25 May 2019 .

3. Operating Review

3.1 Planning

The following observations are made.

Audit Observations

(a) Even though the Department had prepared an Action Plan for the year under review it was observed that, that had not been prepared based on priorities of the Annual Budget in accordance with the provisions of the Public Finance

Recommendations

A proper Action Plan should be prepared in accordance with the Circular.

Comments Given by the Accounting Officer

Circular No. 1/2014 of 17 February 2014 .

The answers had not been given.

- (b) The Key Performance Indicators (KPI) had not been established to measure the Department's performance for the year under review and the targets for revenue collection had been given to the Divisions. Achieving of income goals of the Divisions and 33 Regional Offices had ranged from 7 per cent to 95 per cent whilst investigating revenue targets and progress reports on collection of them as per the information furnished to audit.
- Actions should be taken to establish Key Performance Indicators to measure the performance of the Department and to upgrade the performance accordingly.

3.2 Annual Performance Report

The following observation is made.

Audit Observations

The Department shall table the Performance report for the year under review within 150 days of the end of the financial year in terms of Public Finance Circular No. 402 of 12 September 2002 . The Performance Report nor its Draft had been presented to the Auditor General with the financial statements of the year under review to check that report and to check for inaccuracies therein or the progress that could not be agreed.

Recommendation

To provide a copy of the Performance Report along with the financial statements.

Comments Given by the Accounting Officer

Information should be obtained from Divisional and Regional Offices and the Performance Report could not be able to submit with the financial statements due to that should be based on reports of the Central Bank and Finance Ministry.

3.3 Local Funded Projects

The following observations are made.

Audit Observations

Renovation of the Head Office of the Inland Revenue Department and construction of a 9 storied vehicle park at a contracted amount of Rs. 1,430.5 million had been handed over to the State Engineering Corporation and a sum of Rs. 1399.7 million of which had been paid to

Recommendation

Steps should be taken to get the renovation work and construction works of vehicle park done by the contractor expeditiously.

Comments Given by the Accounting Officer

A report has been obtained from the National Building Research Organization regarding the construction of the vehicle park, and accordingly, that the vehicle park will be

the Corporation as at 31 December 2018. The Corporation had given all the work related to the renovation of the building and the construction of the vehicle park to sub-contractors. The renovation works had not been properly done due to even the Department has paid the money to the Corporation without notice of the progress of the completion of the work as agreed and not paying the due amount to the sub-contractors by the Corporation and, the works of vehicle yard also had not been completed and handed over to the Department even by 15 May 2019 .

completed.

3.4 Procurements

The following observations are made.

Audit Observations

 Bids had been called for obtaining a building with 20,000-25,000 square feet in extent to the Department of Inland Revenue on rent basis . Only two bidders had submitted bids and since the extent was more than 25,000 square feet, the extent of the building to be rent has been increased up to 30,025 square feet with the approval of the Ministry of Finance. Accordingly, a building with 30,025 square feet in extent had been obtained for a one-year period from 30 August 2018 at a monthly rent of Rs. 3.7 million; the Bids called under the old conditions but evaluating under new conditions in contrary to Procurement Guidelines without choosing a supplier by calling bids under revised new conditions.

Nevertheless, any Division had not been established in this building even by 31 December 2018. A total of Rs. 5.08 million had been paid in the year under review consisting rent for unused building, security service charges, and bidding costs and that had been an

Recommendation

 Procurement activities should be made as per the Procurement Guidelines and management decisions should be taken to enable the utilization of public funds effectively and efficiently.

Comments Given by the Accounting Officer

 The building was rented out on the Department requirements with the recommendations of the Technical Evaluation Committee by calling valuation report on the decision of the Ministry Procurement Committee, and the building has been returned on 13 March 2019 due to the absence of locating the Sections in the building for various reasons.

unavailing expense.

3.5 Asset Management

The following observations are made.

Audit Observations -----	Recommendation -----	Comments Given by the Accounting Officer -----
<p>(a) Two transformers that were provided to the Department during the renovation of the main office building had not been used from the year 2010 to 15 May 2019.</p>	<p>The assets should be fully utilized to accomplish the objectives and functions of the Department.</p>	<p>Actions are being taken to use the assets.</p>
<p>(b) The 70 CCTV cameras installed in the Department at a cost of Rs. 7,985,992 in the year 2010 were not in use even up to 15 May 2019 since that date..</p>		
<p>(c) Although the fire extinguishers were installed in the building whilst renovation of Head Office, the State Engineering Corporation had not confirmed their functionality and handed over to the Department.</p>		
<h3>3.6 Losses and Damages</h3>		

The following observations are made.

Audit observations -----	Recommendation -----	Comments Given by the Accounting Officer -----
<p>(a) A Stamp Duty of Rs. 10,000 from the year 2008 and Rs. 20,000 from the year 2013 each on a license to run a certain business or any merchandise for sale of liquor and bottled toddy had to be</p>	<p>Actions should be taken expeditiously to recover Stamp Duty income on the license specified in the</p>	<p>A Circular has been drafted containing instructions to collect the relevant arrears Stamp Duty.</p>

recovered through the Divisional Secretariats as per the Gazette Notification issued in terms of the provisions of the Stamp Duty (Special Provisions) Act No. 12 of 2006. The Minister in charge had ordered by a Gazette Notification that the 10 per cent of the license fee or Rs. 2,000 when issuing 04 categories of liquor licenses and bottled toddy license the higher amount should be charged as Stamp Duty from 01st October 2018 .Nevertheless, before those orders were issued there were instances where Stamp Duty had not been charged in the relevant proportions of the year for 04 types of liquor license and bottle toddy from 2008 to the date of issue of this Gazette issuing licenses on the advice of the Director General of the Fiscal Policy Department and a Commissioner of Inland Revenue. Accordingly, the Government had lost a large amount of Stamp Duty income during the period under review.

relevant Paragraph from the year 2008 to 01 October 2018.

- (b) Even though the returned tendency of cheques given to the Inland Revenue Department by the taxpayers being arisen, enough steps had not been taken to rectify that. It was also observed that performing in slow form whilst recovering the returned cheques. The number of cheques remained so returned as at 31 December 2018 there were 7,295 and the value of them was Rs. 2,550 million.

Necessary action should be taken in respect of the taxpayers who are responsible for the returned cheques as per provisions and to take immediate actions to recover money for the returned cheques.

The recovery activities for returned cheques are being carried out.

3.7 Improper Transactions

The following observations are made.

Audit Observations	Recommendation	Comments Given by the Accounting Officer
<p>(a) Even though the advertisements and promotional campaigns must be carried out through the Selasine Institution by the Department in accordance with the Decision of the Cabinet of Ministers No. අමප/08/2253/338/043 dated 24 December 2008, the propaganda work on the implementation of the new Inland Revenue Act had not been accomplished by that institution. Instead of that, all printing and electronic advertising activities cost at Rs. 93,064,697 had been carried out by selecting advertising agencies through Departmental Advertising Committee and a Procurement Committee .</p>	<p>That the Department should act in accordance with the Decisions of Cabinet of Ministers.</p>	<p>The Department had decided to carry out propaganda work considering the matters such as in view of the the program submitted by the Selasine Institution did not comply with Department, the Selasine Institution had not informed of the bids, the cost can be directly reduced through media institutions.</p>
<p>(b) It had been informed that the hotels should not be selected for conducting workshops and seminars conducted by the Ministries and Departments in terms of the Letter No. CSD / 81/40 dated 04 January 2006 issued by the Presidential Secretariat on Expenditure Management and as per the letters issued from time to time. Nevertheless, the Department had conducted 15 awareness programs on the new Tax Act in hotels and at reception halls incurring a sum of Rs. 21,582,215.</p>	<p>That the Department should comply with the instructions issued by the Presidential Secretariat on Expenditure Management.</p>	<p>Awareness programs were conducted in hotels to obtain maximum benefits at minimum cost and following Procurement Procedures and Financial Regulations.</p>
<p>(c) Collection of Rs. 7,240,500 had been credited to the State Revenue by selling tickets by the Department whilst conducting lectures and seminars on awareness of new Tax</p>	<p>The revenue should not be collected without obtaining the formal approvals for the collection of revenue.</p>	<p>The tickets were sold that to make success the awareness programmes.</p>

Act . The articles relating to granting authority to the Commissioner General of Inland Revenue for the collection of such revenues were not submitted to audit.

3.8 Not responding to Audit Queries

The following observation is made.

Description of the Audit Query -----	Recommendation -----	Comments Given by the Accounting Officer -----
The final answers for 06 audit queries relating to collection of Value Added Tax had not been provided for more than 03 months.	Action should be taken to address the issues raised by the audit queries and provide final answers promptly.	Interim answers have been given and further inquiries are being conducted regarding the matters appear in the Audit Query .

3.9 Management Weaknesses

The following observations are made.

Audit Observations -----	Recommendation -----	Comments Given by the Accounting Officer -----
(a) The responsibility of settling the arrears of taxes and a fine defaulted as at 31 December 2009 amounting Rs.125.2 billion had been assigned in terms of the Default Taxes Payment (Special Provisions) Act No. 16 of 2010 by establishing a new Division. Further, the additional provisions had been made to recover these arrears of taxes by the Default Taxes (Special Provisions) (Amendment) Act No. 14 of 2014. Even though 08 years had elapsed since the establishment of the relevant Division , it was observed that there was an arrears of taxes and fines totalled to Rs.32.5 billion furthermore to be settled.	Actions should be taken to recover the defaulted taxes in terms of the Act.	As the Tax Advisory Committee has not been appointed after 12 December 2014 in terms of the provisions of the Act that the recovery has been delayed.

(b) Even though a Value Added Tax amounted to Rs. 1.48 million approximately had been collected from 09 Ministries and Departments by 13 taxpayers who had been inactive for Value Added Tax by the Department, submission of tax returns or remittance of taxes had not been made to the Department. It was observed that a methodology had not been installed even in the new computer system to avoid collecting of value added tax from Ministries and Department by inactive taxpayers .

The inactive taxpayers should take proper action to stop the collection of tax money. A system should be established to check that the Value Added Tax collected by Taxpayers from all Ministries and Departments are properly reported in Tax Returns.

(c) Whilst examination of a sample of information furnished to Auditor General by the Ministries and Departments in respect of the Value Added Tax with the information of the computer system of the Department of Inland Revenue, it was not confirmed that whether the disclosure of collected Value Added Tax amounted to Rs.66.19 million by Ministries and Departments by 293 active tax payers were made in Tax Returns provided to the Department of Inland Revenue.

A methodology should be established to ensure that the Value Added Tax collected from taxpayers by all Ministries and Departments are properly reported in the tax returns.

(d) There were 17,028 number of tax claims refundable that had to be paid for taxpayers from 01 January 2016 to 30 January 2018 with regard to 04 categories of taxes administered under the new tax administration system and the refundable tax amounted to Rs.15,334.5 million. Of these, the work items had been issued to the officers through the system to deal with 5,078 tax refunds by 30 April 2019. Out of the work items referred, only 212 tax refunds had been completed consisting 25 refunds by cheques as of 14 May 2019 .

The process should be streamlined by finding out the matters caused for the delays in tax refunds through the computerized tax administration system to be able to carry out the tax refunds without delay.

It was stated that interim answers had been given and, further investigations are being conducted in respect of the matters appear in the query.

The tax refunds should not be made for all notices and the work items has been referred to officers by the system for 5,078 requests whereas the payments should be made and the tax refunds for taxpayers who do not submit information in a reasonable time period would be canceled.

4. Achievement the Sustainable Development Goals

The following observation is made.

Audit Observations

Every Government Agency has to act as per the United Nations Year 2030 "Agenda" on Sustainable Development and the Department of Inland Revenue had not acted in its scope of activities relating to the year under review.

Recommendation

The Department should act in accordance with the United Nations Year 2030 "Agenda" on Sustainable Development.

Comments Given by the Accounting Officer

Inquiries have been made from the relevant Ministry to deal with this matter.

5. Human Resource Management

The following observations are made.

Audit Observations

-
- (a) The number of vacancies of the Department as at 31 December 2018 were 188 and that was 6.7 per cent of the approved cadre. Out of that, there were 101 vacancies in the Inland Revenue Service and that was 8 per cent of the approved cadre of the Inland Revenue Service. The work items created according to the new computer system are referred to the officers and it was observed in audit that the remaining of vacancies of the officers affect the completion of those work items.

Recommendation

Immediate steps should be taken to fill the vacancies.

Comments Given by the Accounting Officer

Approval of the Public Service Commission had been requested to fill 71 vacancies in the Grade III of the Inland Revenue Service.

- (b) As revealed in the audit test checks carried out, an officer of the Department had not recorded his arrival and departure on the fingerprint scanner during the first half year of the year under review in terms of Public Administration Circular No. 9/2009 dated 16 April 2009. Similarly, there were instances more than 25 days of the three other officers whose arrival / departure of the finger scanner was not confirmed. Nevertheless, it was also observed that the

All officers should act in accordance with the Circular and proper actions should be taken against the officers who had not so done.

An internal circular had been issued and instructed on the use of finger scanner machine.

incentives had been paid in the first half of the year 2018 for the relevant officers without paying attention to this situation.