

Inland Revenue Incentive Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income and expenditure, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report. 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund 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 of the fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report 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 scepticism 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.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of

information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting

The following observations are made.

Non-Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a) In preparation and submission of financial statements as per SLPSAS 01, the information of the prior year had not been disclosed as comparative information in the statement of cash flow and statement of changes in equity. It was also observed that Rs. 264,500, which was the value of the asset revaluation reserve fund, had not been included in the statement of change of equity for the year under review and the surplus income of Rs. 51,426,693 for the year had been presented separately.	Action will be taken to prepare the cash flow statement and changes in equity statement in compliance with the formats in the next financial year	Financial statements should be prepared in accordance with SLPSAS 01.
(b) A housing loan fund had been established with the objective of granting housing loans to the officers by depositing the funds given by the Treasury from time to time to the Inland Revenue Incentive Fund, in the State Mortgage and Investment Bank. The outstanding loan balances of the officers who have obtained such loans by the relevant bank as at 31 December 2020 and, the details confirming that such fixed deposit has been pledged as security were not disclosed in the notes in the financial statements as per SLPSAS 02.	Action will be taken to disclose the details of the deposit of the fixed deposit pledged as security and the loan balances issued by the Bank on that security in the next financial statement.	Financial statements should be prepared in accordance with SLPSAS 02.

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| (c) | Refund receipts amounting to Rs. 4,287 in relation to General Deposit Account and Rs.2,989 received to income account were not included in the cash flow statement as per SLPSAS 02 and also, it was observed that operational cash flow of Rs.763,433,089 were not presented with details. | Information could not be included in the cash flow statement by mistake and action will be taken to prevent such deficiencies in the future. | Financial statements should be prepared in accordance with SLPSAS 02 |
| (d) | Although the opening balance of Rs. 163,190,675 in the General Deposit Account No. 6000/0/0/6/0/85 maintained on behalf of the Inland Revenue Incentive Fund has been adjusted to the Fund Account during the year under review, the accounting policies changed were not disclosed in the financial statements in accordance with the SLPSAS 03. | Since the final balance of the General Deposit Account as at 31 December 2019 has been disclosed in the financial statement no disclosure is required as this balance was not newly generated value. | Proper disclosure should be made in the financial statement, when changing an accounting policy. |

1.6 Investment Management

Audit Observation

A housing loan fund had been established with the objective of granting housing loans to the officers by depositing the funds given by the Treasury from time to time to the Inland Revenue Incentive Fund, in the State Mortgage and Investment Bank. The cumulative balance in the housing loan fund totalled Rs. 37,851,984 as at 31 December 2020 including the deposited amount and the interest yielded annually thereon. But from November 2008 until the end of the year under review no loan had been made to the officers from this housing fund hence, the objectives of establishing this loan fund had not been achieved.

Management Comment

No further loans can be made until the current loans are being fully repaid and steps can be taken to achieve the objective after current loans are fully repaid

Recommendation

A policy decision should be taken regarding the continuation of the housing fund after a thorough study.

2. Financial Review

2.1 Financial Result

The operating result for the year under review had been a surplus of Rs. 51,426,693 as compared with the corresponding surplus of Rs. 1,176,292 for the preceding year. Thus, observing an improvement of Rs. 50,250,401 in the financial result. The main reason for this improvement was due to adjusting the opening balance of Rs.163,190,675 in the General Deposit Account No. 6000/0/0/6/0/85 to the Fund Account during the year under review.

2.2 Trend Analysis on the Main Items of Revenue and Expenditure

Due to adjusting the opening balance of the General Deposit Account No. 6000/0/0/6/0/85 to the Fund Account during the year under review, resulted in a transfer of provision of Rs.794,000,000 from 1003-1 expenditure subject as income and incentive payment, tea and gas expenses of Rs. 743,905,787 as expenditure were recorded newly to the Income and Expenditure account.

3. Operating Review

Audit Observation

The procedure for the administration of the Fund had not been updated in terms of Section 99 (4) of the Inland Revenue Act No. 24 of 2017.

Management Comment

The relevant procedure has been approved by the Minister of Finance in terms of Section 158 (a) of the Inland Revenue Act No. 78 of 1979.

Recommendation

Provisions of the Inland Revenue Act No. 24 of 2017 to be adhered.