

## **Inland Revenue Incentive Fund - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Inland Revenue Incentive Fund of the Department of Inland Revenue for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the income and expenditure account, statement of changes in net assets, and cash flow statement for the year then ended and notes to 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, and its financial performance and 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 determines 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 Responsibilities 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 audit 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; 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 Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
<p>According to Section 95 of Sri Lanka Public Sector Accounting Standard 01, when an entity has no share capital, it shall disclose the net assets/equity either on the face of the statement of financial position or in the notes, showing separately; and, the accounting policies and the total adjustments made in taking corrective measures, should be disclosed under each component in the statement of changes in net assets. Although adjustments had been made in the statement of changes in net assets of the Fund for the years 2019 and 2021, those adjustments valued at Rs. 22,801,109 had been made to the opening balance in the accumulated fund of the face of statement of financial position. Hence, the opening balance in the accumulated fund of the statement of changes in net assets as at 01 January 2022 differed from the balance of the statement of financial position as at that date. As the adjustment of Rs. 601,420 made for the preceding years had been shown on the face of the statement of financial position mentioned in the comparative information column of the year 2021, the opening balances remained different. It is observed that making adjustments on the face of the statement of financial position relating to the preceding years, was not compliant to the accounting standard.</p>	<p>The relevant officers have been instructed to take corrective measures on the financial statements of the ensuing year as pointed out in the audit query. As such, adjusting the closing balance of the statement of changes in net assets to the statement of financial position will be corrected from the next year.</p>	<p>Accounts should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.</p>

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 9,060,958 as compared to the corresponding surplus of Rs. 17,670,638 for the preceding year, thus observing a deterioration of Rs. 8,609,680 in the financial result. Increase in the expenses incurred on tea and gas by sums of Rs. 6,372,409 and Rs. 1,144,688 respectively in the year under review as against the preceding year, had mainly attributed to the said deterioration.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) Funds granted to the Fund from time to time by the Treasury with the objective of providing housing loans for the officers, had been deposited in the State Mortgagee and Investment Bank, thereby establishing a housing loan fund, and the cumulative balance thereof amounted to Rs. 40,137,313 as at 31 December 2022. Nevertheless, loans had not been granted to the officers over a decade from May 2011 up to the end of the year under review. Only 14 per cent of the deposit value equivalent to Rs. 5,670,837 remained receivable as a housing loan balance as at 31 December of the year under review. Despite the possibility of providing the entire deposit balance of Rs. 34,466,476 for loans, and considering that the loans were recovered from the salaries of the officers, the Department had not taken action to grant housing loans by disregarding the lower risk of defaulting. As such, the funds granted through the	Not replied.	Action should be taken to achieve the objectives of establishing the loan fund.

Consolidated Fund of the Government for welfare of the officers of the Department of Inland Revenue had not been utilized on the intended purpose; instead, such funds had been retained at the State Mortgage and Investment Bank over many years, thus paving way for the Bank to earn benefits by investing those funds in alternative sources.

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| b) | The said audit observation had been pointed out in the report of the Auditor General for the year 2021 as well. The reply given by the Head of the Department to that query stated that new loans would not be given until loans already given were recovered in full, and the interest on the deposit would not be sufficient for granting loans. Nevertheless, the Audit observed that there existed an enough balance to provide loans in accordance with the agreement entered into with the Bank at the time of establishing the housing loan fund. Furthermore, a period of over 08 years would be spent to fully recover the loan balance of Rs. 5,670,837 from the officers who had obtained loans, and as no new loans would be given until the recovery of existing loan balance in full, it was observed in audit that objectives of establishing the housing loan fund would not be materialized. | Not replied. | Action should be taken to achieve the objectives of establishing the loan fund. |
| c) | The said fund had been established with the objective of granting housing loans to officers in the inland revenue service or permanently employed at the Department of Inland Revenue for purchasing a  | Not replied. | Action should be taken to achieve the objectives of establishing the loan fund. |

house/land or repairing a house subject to a maximum of Rs. 1,000,000 or Rs. 500,000 respectively; and, the interest received on the opening balance of that fund being Rs. 38,977,949 amounted to Rs. 1,159,364 for the year 2022 thus indicating that the interest rate was as low as 2.97 per cent. Furthermore, due to 16 per cent of the total value of assets owned by the Incentive Fund being retained in a loan deposit account, objectives of the loan fund could not be achieved whilst the possibility for the Department to earn higher benefits through a more productive investment had also been lost.

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| d) | The terms and conditions on loans and credit balances mentioned in the agreement signed by the Department of Inland Revenue and State Mortgage and Investment Bank on 10 April 1989, have become incoherent with loan policies and market environment of the present day; and hence, this situation has affected the housing loan fund not be functional. As such, it was observed that attention of the Department should be brought on the necessity to revise the terms and conditions of the said agreement. | Not replied. | Action should be taken to achieve the objectives of establishing the loan fund. |
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