Head 246 – Department of Inland Revenue

1. Financial Statements

1.1 Qualified Opinion

Head 246 - The audit of the financial statements of the Department of Inland Revenue for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance and Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 2024 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department of Inland Revenue was issued to the Accounting Officer on 18 June 2024 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

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 financial position of the Department of Inland Revenue as at 31 December 2023**,** and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor’s Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

The Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department of Inland Revenue 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.

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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional skepticism 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 Department of Inland Revenue's internal control.

- Evaluate the 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.

- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

(a) The financial statements are consistent with the preceding year,

(b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

Reference to the Paragraphs of the preceding year report	Recommendation that had not been implemented	Reference to the Paragraph in this report
1.6.1 (a) (i)	Differences between treasury information and departmental books should be accurately identified and reconciled.	1.6.1.1 (i)
1.6.1 (a) (iv)	The balance of the suspense account should be correctly identified and the necessary adjustments should be made and settled.	1.6.1.1 (iii)
1.6.1 (b)	Monthly income should be reported accurately.	1.6.1.2
1.6.1 (c)	Income classification errors should be rectified.	1.6.1.3 (iii)
1.6.2 (a), (b)	All the assets owned by the departments should be assessed and accounted as per the circular.	1.6.2.1, 1.6.2.2

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Receipts of Revenue

The following observations are made in accounting the revenue receipts of the department.

	Audit Observation	Comments of the Accounting Officer	Recommendation
I	**Mismatches**		
(i)	Other Income code No. 1004.02.99 under Non-Corporate Income Tax acts as a Revenue code as well as a Control Account and when the examination of the ACA1 balances in the financial statements of the year under review, as per the information of the treasury, Rs. 48,533,060,340 had been credited	Even if there is a difference in identifying mismatches and making comparisons, future comparisons will be made as accurately as possible.	According to the Information based on the Revenue Classification Control Account should be adjusted by the Department correctly.

	in the said control account and the income accounted in the control account by the department in the classification of income was Rs. 48,353,957,373, therefore, a mismatch of Rs. 179,102,967 had been observed. According to the reply given to the audit in this regard, the refunds from the control account from this difference, the amount of Rs. 402,684 was adjusted and further difference was observed Rs. 179,505,651.		
(ii)	According to Departmental Revenue collections in the Income Statement for the year ending 31 December 2023, the total tax receipts were Rs. 1,550,589,866,148 but in the Cash Flow Statement for the year ending 31 December 2023, the total tax receipts were Rs. 1,553,438,481,285 therefore, it was observed that there was a difference of Rs. 2,848,615,137. According to the reconciliation statement given to the audit, it was observed that even after adjusting the value of Rs. 1,959,535,962 on the capital gain adjustments, the further difference was Rs. 889,079,175 due to various reasons.	That revenue collections and total tax receipts will be accounted as accurately as possible for the relevant period in the future.	Revenue collection and total tax receipts should be identified as accurately as possible and the correct values for the relevant period should be accounted.
(iii)	As at 31 December 2023, due to the existence of an unsettled suspend balance of Rs. 5,211,312,210 in the RAMIS computer system recorded under TIN No. 100886553, the outstanding tax balance had been overcalculated by that amount and it was also observed that the outstanding balances had been	The balance as at 30 June 2024 was Rs. 4,904,067,442 and actions are being taken to settle this amount also.	Necessary actions should be taken to properly identify and settle the outstanding balance.

	remained outstanding since 2015 i.e. for more than 08 years.		
(iv)	It was observed that there were weaknesses in the internal control regarding revenue accounting as it was observed that no actions were taken to correct the differences identified by comparing the amounts credited to the treasury through the revenue collection bank accounts with the bank account statements.	That the classification reports will be prepared properly after correcting the inconsistencies caused due to errors committed by taxpayers in completing payment slips, errors committed by the bank, dishonored checks etc.	The money credited to the treasury from the revenue collection bank accounts should be properly reconciled
II	**Accuracy of monthly income reporting**		
	Although, the section 4 and 4 (c) of the Public Finance Policy Circular No. 01/2015, had been directed to the identification of the correct classification of income under the respective income subjects should be done in the first week of the coming month, accordingly, the income collected under the income codes related to the nine months in the year under review had not been recognized in that month.	It was identified in January 2024 that there was a difference in the comparison of the reports obtained by the system in the last 4 months of 2023 related to capital gains tax, and separate revised income classification reports (A 75) for the relevant months were prepared and forwarded to the relevant division.	Income reports should be properly prepared as per Public Financial Policy Circular No. 01/2015 dated 20 July 2015.
	And here, although the tax on capital gains under the revenue code 1004.05.00 was recognized in the income classification reports of the months of September, October, November and December 2023, but had not been recognized separately for the respective months when entering the summaries of the treasury monthly accounts of the respective months. It was further observed that since only the accumulated revenue of 03 months had been adjusted to the summary		

	of the treasury monthly accounts in December 2023, the correct information about the actual revenue collection in the respective months had not been reported.		
III	**Income Classification Errors**		
(i)	Although two transfer slips of Rs. 979,840,248 for adjustment of changes under two revenue heads had been made, those corrections of errors should be showed as the gross value under departmental revenue collections in form ACA 01 in the Income Statement for the year ending 31 December 2023 but due to the reporting of its net value and corrections of errors not being shown in the relevant column, the information in ACA form had not been presented correctly.	In the future, the information will be presented correctly according to the format of ACA 01.	Income codes should be correctly identified and classified.
(ii)	The value added tax revenue collected by the department was credited to the control account maintained in the treasury and then the money was accounted to the three codes of tax revenue based on the financial services, other services and manufacturing through the monthly accounting summary reports. As per the Trail Balance of the Department for the year under review, there was a mismatched amount of Rs. 1,068,469,869 in the value added tax control account (1002.01.00) and after accounting through the monthly accounting summery reports, the said balances remaining in the control account at the end of the reviewed year were transferred to other service revenue code 1004.02.99 through transfer	That the value of Rs. 1,068,469,869 was the unclassified balance of the tax control account on value added tax and since the year-end balance of that control account should be zero, the difference has been transferred to other tax account (1004.02.99).	Revenue codes should be correctly identified and classified.

	slips without identifying them according to revenue codes then the accuracy of the net income of all the three revenue codes namely financial services, other services and manufacturing had not been confirmed by the audit.		
(iii)	According to State Accounts Guidelines Circular No. 05/2023 of the year 2023 and as per the forms on the State Accounts Department web page, the Revenue Code no 2003.02.22 Casino License Fees should be shown under a separate revenue head, although ACA 1 in the financial statements for the year under review had been showed the estimates of revenue in respect of the Revenue Code no 2003.02.22 Casino License Fees, Revenue collection had been zero. However, according to the revised income classification report provided for audit on 20 March 2024, Rs. 500,000,000 had been earned for casino license fees, but that information had not been disclosed in the financial statements under the relevant revenue code.	In March 2024, the Betting and Gaming Tax Division has been identified and accordingly revised the income classification report of December 2023.	Revenue codes should be correctly identified and classified.

1.6.2 Non-Financial Assets

The following observations are made in accounting property, plant and equipment.

	Audit Observation	Comments of the Accounting Officer	Recommendation
(i)	According to the Asset Management Circular No. 04/2018 issued by the Comptroller General's Office on 31 December 2018 regarding the valuation of non-financial assets and the related	In relation to the Kurunegala land valuation, the documents of proof of ownership, copy of drafts, list of building details and building plan documents	The relevant assets should be accounted as per the Non-Financial Assets Valuation Guideline.

	guidelines, it is stated that the valuation of all buildings is essential, but since the land where the Kurunegala Regional Office of the Inland Revenue Department is located, had not been assessed and accounted until now, the audit observed that the value of Rs. 2,081,300,000 of land and land improvements as at 31 December 2023 under Head 2105 had been understated from the market value as at 31 December 2023.	requested by the Valuation Department are not in possession of the department, so the documents are currently being prepared, so it has not been possible to get the valuation reports so far.	
(ii)	According to the said guidelines, it is stated that the entire expenditure incurred so far on a construction in progress should be accounted as work in progress. The amount of Rs. 1,399 million paid to the State Engineering Corporation on 22 occasions had not been accounted as work in progress for the vehicle yard located at the Inland Revenue Department's head office, which was being built under an initial estimate of Rs. 176,000,000 and the construction has been stopped. While observing its current condition, the current assessed value is likely to be different from the book value since the said vehicle yard is severely decayed and dilapidated and so the audit could not be satisfied with the said value.	A committee has been appointed with the intervention of the Ministry of Finance to take a decision on the next steps to be taken regarding the proposed vehicle yard, and a report has been called from the Building Research Institute on the current construction. After receiving the report, a decision is to be taken on entering into a contract for the next steps.	Assets should be accounted as per Asset Management Circular instructions.
(iii)	According to the reports provided up to 30 March 2023, which was the date of audit, from the Board of Survey carried out on 31 December 2022, it was observed during the audit that although it has been recommended that the items related	From the Board of survey reports for the year ending 31 December 2022, recommendations to be included in the CIGAS program and amendments indicated to be made to the	Recommendations given by Board of Survey should be implemented.

	to 43 units selected for a sample should be included in the CIGAS program, the opening balance adjustments for those items on 01 January 2023, and the adjustments related to removal from the CIGAS program for the items related to 23 sectors which have been transferred to other sectors by the concerned department or are under-represented in the bill of lading, they had not been acted upon until 04 April 2024. Accordingly, the audit could not be satisfied with the value of Rs. 386,875,226 stated as machinery and equipment as at 31 December 2023 in the financial statements.	CIGAS program are being worked on.	

1.6.3 Lack of Audit Evidence

Audit Evidence on the following transactions had not been made available.

	Audit Observation	Comments of the Accounting Officer	Recommendation
(i)	06 audit queries issued to the department during the year under review had not been answered by 31 May 2024 and the value of calculable transactions related to those queries was Rs. 66,944,845,547.	As at 31 December 2023, out of the queries referred by the Auditor General, only 04 audit queries had not been answered and because it required considerable time to collect and check the necessary information from the departments for those queries, therefore there was a delay in providing answers to those 04 queries.	According to the Financial Regulation 155, the accounting officer shall examine the audit inquiry register as per the Financial Regulation 452(1) after a certain period of time and take action to rectify the deficiencies indicated by the audit inquiries received, and the said inquiries shall be answered immediately. If there are queries that may be delayed even being answered, action should be made to send an interim report for that.

(ii)	The opportunity to get the updated information through the system had been lost due to the fact that the audit team was not given access permission to access the View Appeal and View Objection Record sub-modules in the Appeal and Objection modules operating in the RAMIS system and Appeal Registration, Time Bar Report, Settled Appeal Report, Objection Registration, Settled Objection Report and Unsettled Objection Report generated by the Report module of the RAMIS system.	That there has been no default to provide support to the Auditor General, and that efforts will be made to provide the necessary support.	According to Section 42 of the National Audit Act, it is an offense not to submit a document or report requested by the Auditor General or his authorized person within the stipulated time.
(iii)	Since the Inland Revenue Department has entered into the agreements with the Singapore company that the agreements cannot be given to other third parties, since those agreements had not been given to the Auditor General, the audit had not been able to confirm whether the cash payments of Rs. 14,429,237,244 from the year 2014 to the year 2023 related to the RAMIS system and its progress have been made as per the agreements.	According to the terms of the agreement, as the written consent of the Singapore company has not been received to exchange documents or information related to the RAMIS system with another third party, as providing such may be a violation of the terms of the agreement and a letter dated 27 August 2024 has been addressed to seek the opinion of the Attorney General regarding the ability to provide relevant information to the National Audit Office.	According to Section 42 of the National Audit Act, it is an offense not to submit a document or report requested by the Auditor General or his authorized person within the stipulated time.

2. Financial Review

2.1 Management of Imprests

	Audit Observation	Comments of the Accounting Officer	Recommendation
2.1.1	While preparing the Imprest plan for the year 2023 by the department, the Imprest planned to be applied for during the year was Rs. 15,523,229,700 and the total imprest received during the year was Rs. 8,104,343,000 which was only 48 percent of the requested imprest. Similarly, from the imprest received in the year, the imprest received up to 01 October 2023 was Rs. 3,184,709,000 which was only 39 percent of the total imprest received in the year and 26 percent of the total imprest which was Rs. 2,113,744,000 was received in December 2023. Accordingly, it was not observed that the imprest management of the department has been done as planned.	The fact that affected the irregularity of imprest management was stated and that a situation occurred due to reasons such as, mainly the treasury did not provide imprest as scheduled due to the economic crisis in the country, receiving the imprest for incentives for the first quarter of 2023 in December and releasing more imprest at the end of the year during the settlement of accounts.	The management should act to carry out the imprest management of the department with good control.

2.2 Revenue Management

Audit Observation	Comments of the Accounting Officer	Recommendation
According to Section 128 (2) (c) of the Code of Financial Regulations, the Commissioner General of Inland Revenue shall submit half-yearly default tax reports to the Auditor General on 31 July and 31 January of the following fiscal year respectively. Accordingly, the following observations are made during the		

	audit of the information provided by the report on Legacy Default Tax Income Report and the RAMIS Default Tax Income Report submitted on 28 February 2024 for the year ending 31 December 2023.		
2.2.1	According to the Default Tax Income Reports, the total arrears taxes, penalties and interest to be collected by the department on 31 December 2023 related to RAMIS and Legacy computer systems were classified as collectible and temporarily held over based on the ability to recover from the revenue. Accordingly, more than 82 per cent of the total arrears of tax, penalty and interest income had been identified as temporarily held over tax, penalty and interest.	Arrears tax collection is done on the basis of identified valid reasons for defaulting and the arrears tax collection is done after resolving the issues that led to the defaulting.	All actions mentioned in the relevant tax acts should be implemented and actions should be taken to collect all outstanding tax and penalty balances promptly.
2.2.2	Accordingly, in relation to the RAMIS computer system, as at 31 December 2023, the total outstanding tax, penalty and interest amounting to Rs. 856,852,673,726 and 84 per cent i.e. Rs. 718,383,567,358 as temporarily held over taxes, penalties and interest, and Rs. 138,469,106,368 i.e. 16 per cent had been identified as collectible tax and penalty.	- Do -	All actions mentioned in the relevant tax acts should be implemented and actions should be taken to collect all outstanding tax and penalty balances promptly.
2.2.3	According to the Legacy computer system, as at 31 December 2023, out of the total outstanding tax, penalty and interest value of Rs. 209,936,351,219, Rs. 159,645,625,333 i.e. 76 per cent had been identified as	- Do -	All actions mentioned in the relevant tax acts should be implemented and actions should be taken to collect all outstanding tax and penalty balances promptly.

	temporarily held over taxes, penalties and interest. Accordingly, it was observed during the audit that a significant high value of the total arrears tax, penalty and interest income was temporarily held over tax, penalty and interest.		
2.2.4	Under the Recovery of Default Taxes (Special Provisions) Act No. 16 of 2010, as amended by Act No. 14 of 2014, the DTRU Division was established on 31 December, 2009 for the recovery of default taxes and had been transferred arrears of taxes and penalties amounting to Rs. 48,812,991,690 as at 31 December 2015 and as at 31 December 2023, outstanding taxes and fines up to Rs. 22,072,303,229 i.e. Rs. 26,740,688,461 had been settled. It was also observed that 18 per cent of the tax arrears were actually collected in cash and 82 per cent were corrections and written off under the Finance Act.	The summaries of the reduction of arrears of tax in the DTRU division – in cash and other forms, in the year 2023 had been presented to the audit.	All actions mentioned in the relevant tax acts should be implemented and actions should be taken to collect all outstanding tax and penalty balances promptly.
2.2.5	For the year ending 31 December 2023, even though the collection of revenue related to Economic Service Charges, National Security Service Tax, Turnover Tax, Loan Repayment Tax and Tax on Voluntary Disclosure as per Income Statement and the arrears collected as per the Statement of Arrears of Income should be equal, a difference of Rs. 2,454,770,780 had been observed between them.	Due to the transfer of files between each department, it was difficult to get detailed information about this and that related actions will be taken to avoid such errors in the future.	All actions mentioned in the relevant tax acts should be implemented and actions should be taken to collect all outstanding tax and penalty balances promptly and should be properly accounted.

2.2.6	According to the Statement of Arrears of Income for the year ending 31 December 2023, it was observed that there are balances without any recovery amounting of Rs. 14,599,086 under the stamp tax revenue head 10.02.07.00 and amounting of Rs 2,215,581,368 under the debit tax revenue head 10.02.08.00 from the year 2019.	That legal cases are currently pending regarding these arrears of income tax.	Actions should be taken to promptly collect the arrears of tax and penalty balances subject to all the provisions of the relevant tax laws.
2.2.7	According to the Statement of Arrears of Income for the year ending 31 December 2023, as at 31 December 2023, the debt repayment tax was Rs. 1,692,235,124 and the balance of interest income was Rs. 6,016,947,091, which had been increased compared to the previous year and no recovery had been taken place during the year and it was also observed that there was no recovery under the head of interest income in the previous year, but a large amount (about 37%) of tax arrears had been written off in the year 2022.	Thus, an increase in arrears has been shown since the assessment worth of Rs. 530,235,731.82 have been issued during the year ending 31 December 2023.	All actions mentioned in the relevant tax acts should be implemented and actions should be taken to collect all outstanding tax and penalty balances promptly.
2.2.8	The following observations are made regarding revenue estimate prepared for the year 2023 and the revised revenue estimate of the Inland Revenue Department.		
(i)	As shown in the financial statements ending on 31 December 2023, in relation to the year 2023, the original income estimate was Rs. 2,090,013,000,000 and the actual income earned on 31 December 2023 was Rs. 1,832,274,445,785, which was	The Fiscal Policy Department has prepared the basic estimate based on the types of taxes and policy changes to be imposed in the year 2023. A revised estimate related to the year 2023 has been prepared by the Department of Fiscal	Actions should be taken to collect the estimated income.

	a decrease of 12 per cent as a percentage of that value and the original income estimate. However, according to the revised estimate issued on 18 December 2023 which was 13 days before the end of the year, the original income estimate had been reduced by Rs. 328,029,000,000 as Rs. 1,761,984,000,000. The variation was lower by 15.7 percent as a percentage of the original income estimate.	Policy itself and the revision has been submitted by the Ministry of Finance on 14 December 2023. The amendment was made by the Ministry of Finance and the department cannot express about the facts on which it is based.	
(ii)	The performance measurement for achieving revenue targets, which is a main measurement used to measure performance of the Department of Inland Revenue, thus reducing the revenue estimate by 15.7 per cent when more 13 days to the end of the year and it was observed that the achievement of the income targets had been reached more than 100 percent by comparing the reduced and revised revenue estimate and the actual income as at 31 December 2023 therefore it was observed that there is no compromise on the methods established from providing information to the achievement of the estimated targets for the preparation of these estimates.	A revised estimate related to the year 2023 has been prepared by the Department of Fiscal Policy and the revision has been submitted by the Ministry of Finance on 14 December 2023. The preparation of the original estimate and the preparation of the revised estimate were done by the Ministry of Finance and accordingly the work of revenue collection was done by the department and in comparison, with the revised estimate, the department has achieved the revenue target by 104%.	Annual income targets should be set correctly and should be worked towards achieving them.
(iii)	In the original revenue estimate, the expected direct tax revenue was 44 percent and indirect tax revenue was 56 percent, according to the revised estimate, those values were 49 percent and 51 percent, respectively, and	Annual revenue estimates are prepared based on the existing tax policy of the country and forwarded to the Inland Revenue Department by the Ministry of Finance.	Actions should be made to achieve the goals of the policy makers in Sri Lanka.

	according to the actual revenue collection, those values were 50:50 percent. In order to make public taxation fairer and just, the composition of direct and indirect taxes is aimed at reaching the 60:40 level as a more appropriate mix and as the government's income tax collector, the Inland Revenue Department had to work further to reach those tax mixes.		
(iv)	In giving relevant reasons for the variances between the estimates and actual revenues in the financial statements, it was only mentioned that the revised estimate for 2023 had been prepared by the Department of Fiscal Policy of the Ministry of Finance and issued on 18 December 2023. The variances did not include the reasons for the change in the financial statements or the basis for revising the income in accordance with Financial Regulation 85.	The department cannot express the reasons for the difference or the basis for revising the revenue when presenting the variations between the estimates and the actual revenue and the revenue collected by the department was compared to the revised revenue estimate given to the department and the percentages of achieving the revenue targets are presented.	Annual income targets should be set correctly and should be worked towards achieving them.

2.3 Expenditure Management

	Audit Observation	Comments of the Accounting Officer	Recommendation
2.3.1	**Underutilization of Provisions**		
	According to the National Budget Circular No. 1/2023 dated 27 January 2023, although it was stated that 6 percent of the allocated provisions should be cut-off, contrary to the circular, provisions had been made and expenses had been incurred under FR 66 for recurring expenses related to 5 expenditure subjects	Due to the economic crisis, expenses have been managed as per the conditions mentioned in the circulars issued from time to time, and the relevant officials have been instructed to act and comply with the circulars issued in the future.	The essential procurements to be made by managing the expenditure subject to the circulars should be done on time.

	and surplus were between 9 and 25 percent for 3 expenditure subjects for which provision was reserved and also it was observed during the audit that the statutory facilities for making extra provisions had not been properly utilized by not using the allocated provisions properly.		

2.4 Incurring of Liabilities and Commitments

	Audit Observation	Comments of the Accounting Officer	Recommendation
2.4.1	According to the financial statements as at 31 December 2023, out of the balance mentioned in the Statement of Commitments and Liabilities, the amount of outstanding Commitments and Liabilities as at 28 February 2024 was Rs. 17,688,924. It was observed that it is a percentage of 22 percent of the total commitments and liabilities stated as the amount of outstanding liabilities of the department as at 31 December 2023.	Out of those liabilities, only Rs. 4,624,865 was as at 16 July 2024.	Outstanding liabilities should be cleared promptly.
2.4.2	When the Department is preparing Statement of Commitments and Liabilities, the Statement of commitments in terms of F.R. 94 (2) & (3) had been prepared according to the State Accounts Circular No. 255/2017 dated 27 April 2017 and as at 31 December 2023 the value of commitments was Rs. 230,581,411 and according to F.R. 94 (3), the audit was observed that the	That the total cost estimate as at 31 December 2023 has been exceeded as the commitments have been reached due to fluctuations in certain percentages that occurred in the middle of the year even though they were prepared based on the tax policies and prices that existed on that date. That this report will be prepared	Statement of Commitments and Liabilities should be properly prepared.

	commitments for the period exceeding the total cost estimate amounted to Rs. 3,306,705 had been incurred.	without such delay errors in future preparation.	

2.5 Certifications to be made by the Accounting Officer

Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

	Audit Observation	Comments of the Accounting Officer	Recommendation
2.5.1	Even though the Chief Accounting Officer and the Accounting Officer should ensure that all audit queries be answered within the specified time as required by the Auditor General, however, in terms of paragraph 3.5 of the report, the audit queries had not been answered within the stipulated time.	As at 31 December 2023, among the queries referred by the Auditor-General, only 04 audit queries had not been answered and because considerable time was needed to collect and check the information required for those queries, the answers to those 04 queries were delayed.	According to section 38 (e) of the National Audit Act No. 19 of 2018, answers to audit queries should be given within the stipulated time.

2.6 Non-compliance with Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

	Observation			Comments of the Accounting Officer	Recommendation
	Reference to Laws, Rules and Regulations	Value Rs.	Non-compliance		
2.6.1	Establishments Code of the Democratic Socialist Republic of Sri Lanka				
(i)	Section 4.4 of Chapter XXIV	Rs. 476,795	As at 31 December 2023, the	The amount of Rs. 222,500 has been requested to be	The respective loan balances should be settled promptly in

			balance due from three deceased officers had not yet been recovered in accordance with applicable laws.	recovered from the death gratuity, Form of Treasury 79 has been issued for the amount of Rs. 62,781 and the amount of Rs. 191,514 has been requested to be recovered through the Agrahara insurance.	accordance with the Establishment Code.
(ii)	Sections 4.2.2, 4.2.4, 4.2.5, 4.5, 4.6 and 6.3 of Chapter XXIV	Rs. 267,960	Although the loan balances of the retired officials should be settled promptly, the loan balances of 3 officials had been remained unsettled as at 31 December 2023.	That the amount related to Rs. 203,690 to be recovered from two officers is possible to be recovered from the retirement gratuity in the future and that the amount of Rs. 64,270 to be recovered from the other officer has been issued a form of Treasury 79	The respective loan balances should be settled promptly in accordance with the Establishment Code.
(iii)	Sections 4.5 and 4.6 of Chapter XXIV	Rs. 1,953,258	The loan balances of 13 officers who left the post had been remained unsettled as at 31 December 2023.	Legal actions are being carried out to recover the sum of Rs. 520,892 due from three officers and the actions are being carried out to recover the sum of Rs. 1,432,366 due from the remaining 10 officers.	The respective loan balances should be settled promptly in accordance with the Establishment Code.

3. Operating Review

3.1 Delays in the Execution of Projects

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
3.1.1	**Performance Test in Inland Revenue Department's RAMIS System** A total cost of Rs. 14,429,237,244 had been incurred for RAMIS system from the year 2014 to 31 December 2023. A contract for RAMIS 1.0 was signed on 27 May 2014 for Singapore dollar 35,006,646 (Rs. 04 billion at current foreign exchange rates) with a Singaporean entity (NSC) and the completed modules of the system had been operated from 01 January 2016. In this regard, the following observations are made during the inspection.		
(i)	The department had been paid Singapore dollar 5,880,313 (Rs. 725,882,619) for system maintenance services for 04 years from January 2016 to October 2020, and Singapore dollar 309,824 (Rs. 46,826,053) for extending the contract by 3 months to 31 January 2021 and the maintenance service contract for 01 February 2021 to 31 January 2024 for 03 years at Singapore dollar 21,053,371 (about Rs. 3.1 billion) had been awarded to a subcontractor of the Singapore Cooperative. Due to the delay in recruiting the staff to	That Cabinet approval has been given on 29 April 2024 for the extension of maintenance agreement of the Inland Revenue Department's RAMIS system by 3 years from February 2024 to January 2027.	Actions should be taken to take over the maintenance of RAMIS system promptly.

take over the system by January 2024, the Cabinet approval had been given on 29 April 2024 to extend the agreement for another 03 years and for that Rs. 07 billion will have to be spent.

(ii) The work for amendments to be made with the coming into force of the new Inland Revenue Act No. 24 of 2017 had been assigned to an institution in Singapore under 02 projects.

Accordingly, a contract had been signed for Singapore dollar 1,760,000 (Rs. 265 million) for RAMIS 2.0 Phase A, which includes the tasks of Issuing and Collecting tax reports and performing e-services and another contract had been signed for Singapore dollar 15,534,364 (about Rs. 2.3 billion) for RAMIS 2.0 Phase B, which includes the tasks of proceedings relating to self-assessment returns for capital gains tax and income tax, tasks relating to Tourist VAT refunds, Registration of new taxpayers, Issuance and Receipt of tax returns, Receipt and Collection of tax payments, Issuance of Assessments, Receipt and Processing of tax appeals, Issuance of tax refunds, Issuance of Clearance Certificates, providing interface with Inland Revenue Department and other related institutions and connecting through internet. The following observations are made in this regard.

(a)	That certain changes will be made in the RAMIS system for the problems arising in the operation of the RAMIS system, for this purpose, it will cost to the Singapore company Singapore dollar 1,333 which is approximately Rs. 291,000, per man-day to make the changes and under the new agreement, that amount had been increased to Singapore dollar 1,400 which is approximately Rs. 305,200. Accordingly, it was observed during a sample audit that in addition to the above-mentioned costs paid to the institution to develop the modules, Rs. 71,723,662 had been paid from time to time in the year 2022 for these changes made.	It is normal that the modules related to the RAMIS system should be updated according to the changes made in the tax policies, and since it is difficult to obtain the prerequisites related to these tax policy changes, it is not possible to facilitate it at the time of developing the system.	It should be done with a good understanding at minimum cost to the government, in the meantime, the necessary actions should be made to undertake system maintenance.
(b)	Under RAMIS 2.0, guidelines had been issued on 10 April 2024 for the entry into the RAMIS system of additional income tax assessment returns pertaining to the assessment year 2018/2019 subject to a deadline of 31 May 2022 due to the non-development of the assessment report issuance module and accordingly, the information given shows that the number of assessment reports to be entered into the RAMIS system for the year 2018/2019 was 2,979. Furthermore, It was further observed that there was a temporary system outside the RAMIS system because only the module of that year in the system had been completed and since the relevant assessment module had not been developed for each of	That the assessment reports issued by the alternative system are being updated with the RAMIS system.	The development of RAMIS 2.0 module should be completed promptly.

	those assessment years to include 4,489, 3,460 and 758 in the report system from the year 2019/2020 to the year 2021/2022 respectively. Due to this, it was also observed that it was not possible to assign work items to officials through the system.		
(iii)	It was observed that the connection of 28 institutions to the RAMIS system was to be done under 4 phases and 06 institutions namely Sri Lanka Customs, People's Bank, Bank of Ceylon, Ministry of Finance, Company Registrar Department, Lanka Clear Pvt. Ltd. had already been contacted, but the rest of the institutions had not been contacted due to various problems.	The People's Bank, Bank of Ceylon, Company Registrar Department, Ministry of Finance, Customs, and Lanka Clear Pvt. which currently have the necessary infrastructure, already connected with the RAMIS system and other institutions have not fulfilled the necessary infrastructure to connect with the RAMIS system and the relevant institutions have also been informed in this regard and that factors outside the Inland Revenue Department have affected this.	The existing problems should be solved and the institutions that are not connected should connect the RAMIS system as soon as possible.
(iv)	According to the recommendations made during the session of the Committee on Ways and Means held in Parliament on 24 January 2024 for further discussion regarding the RAMIS system, it was stated that IT officers should be recruited under a separate service and taken over the RAMIS system, but any information about a positive action has been taken in this regard had not been reported to the audit and it can be inferred that at least 50 computer technical officers should be present in the	A detailed document with the number of officers required to maintain the RAMIS system and their qualifications and required experience has been obtained from the NCS and a detailed plan is being prepared for the acceptance of the RAMIS system including other infrastructure and hardware requirements and that related activities are currently being carried out in discussions with the relevant parties.	Necessary actions should be taken to undertake the maintenance work of RAMIS system.

	Inland Revenue Department when accepting the RAMIS system and this amount may change according to the agreement, and it was observed that the audit could not confirm due to incomplete information received.		
(v)	Although 77 members of the approved staff of the Inland Revenue Department had been temporarily attached till 31 December 2023 to cover the tasks related to the scope of the RAMIS project, according to the letter No. MF1/02/17/IRD/33 dated 16 February 2024 issued by the Ministry of Finance, Economic Stabilization and National Policy, it was observed that the approved staff had been reduced to 60 till 31 December 2024.	That 77 project staff were employed by 31 December 2023 and the Ministry of Finance Secretary's letter No. MF/02/17/IRD/33 and dated 04 March 2024 has informed that the staff will be limited to 60 and it is not enough to carry out the existing activities.	It is the responsibility of the management to conduct the project at minimum cost to the government.
(vi)	Under the RAMIS project, the call center service (call center) operated by the Singapore company had been taken over to the Inland Revenue Department and run under a private company for a period of more than 02 years from 01 April 2021 to 31 May 2023, subject to the payment of an amount of Rs. 33,844,000 without VAT per year and again the Ministry of Finance approved the extension of the contract from 01 June 2023 to 31 March 2025 for an amount of Rs. 38,350,000 without VAT per year. This contract has to be extended due to lack of physical and human resources in the department to maintain this call center service and it was observed that	That the call center service run by the Inland Revenue Department is a unique service and that work is done by a qualified agency on a specific fee.	It is the responsibility of the management to conduct the project at minimum cost to the government.

	Rs. 96,450,500 had been paid for this call center service till 28 February 2024 and that these additional costs will have to be borne because the department had not taken actions to perform this service.		

3.2 Annual Performance Report

In terms of paragraph 10.2 of Public Finance Circular No.2/2020 of 28 August 2020, the Annual Performance Report should have been prepared in accordance with the Format specified in Guideline 14, issued by the Department of Public Finance. The following observations are made in this connection.

	Audit Observation	Comments of the Accounting Officer	Recommendation
3.2.1	Even though, in terms of paragraph 10.2 of Public Finance Circular No.2/2020 of 28 August 2020, the Annual Performance Report should have been reported to the Auditor General on 28 February 2024 with the Format specified in Guideline 14, issued by the Department of Public Finance, it had been delivered with a delay on 22 March 2024.	That necessary actions have been taken to submit before the due date as per the recommendation.	The annual performance report should be submitted on the due date as per circular provisions.

3.3 Assets Management

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
3.3.1	It was observed that 7 vehicles with an accounting value of Rs. 24,890,000 owned by the department are idle from the years 2020, 2021 and 2022. Accordingly, the value of the above idle vehicles had been included in the value of assets of	According to the 2023 vehicle survey report, 42-7793 and 52-8295 vehicles are being disposed and the other vehicles have been sent for repairs and these all vehicles are still in the possession of the	The reasons for the idleness of the vehicles should be found out and relevant actions should be taken immediately.

	Rs. 320,307,150 stated as vehicles on 31 December 2023 in the financial statements.	department, so their value was included in the financial statement.	

3.4 Losses and Damage

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
3.4.1	Regarding vehicle and equipment accidents that occurred on 05 occasions, Rs. 8,851,886 had not been recovered or deducted from the responsible officers in terms of Financial Regulation 103 (1) (f) and (g).	That recovery of damages has not been charged since final Board of Inquiry decisions have not been received.	Charges or deductions should be made from the responsible officers as per the Financial Regulations.
3.4.2	In respect of 5 vehicle accidents that have occurred from the year 2019 to 31 December 2023, the value of the loss had not been assessed in accordance with Financial Regulations 103 (I) (e) and 104 (3) and had not been included in the damage and loss register. Also, due to the fact that the value of the loss related to those accidents had not been shown in the statement of write-offs in the financial statements of the year under review, the correct information had not been disclosed in the account.	Regarding the vehicle accident, information has been entered in the damage and loss register as per the Financial Regulations and that the damage and loss register will be updated accordingly in the future.	As per the Financial Regulations, the value of the loss incurred should be taken in the loss and damage register and financial statements.

3.5 Management Weaknesses

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
3.5.1	The following observations are made regarding the process of issuing assessment reports for Corporate Income Tax (CIT) in the years 2020/21 and 2021/22.		
(i)	According to Section 126 of the Inland Revenue Act No. 24 of 2017, every person who liable to pay tax shall submit a tax return containing the prescribed information in a form specified by the Commissioner General within the prescribed period in writing or by electronic media, during a sample inspection, although tax return forms were sent to 22 taxpayers, it was observed that they had not been submitted tax returns within the stipulated period for the years 2020/21 and 2021/22.	That out of the above 22 taxpayers, 15 taxpayers have submitted their tax returns for the years in which they had not submitted their returns.	According to the section of the Inland Revenue Act No. 24 of 2017, actions should be made to get the tax returns.
(ii)	Whereas Section 152 of the Inland Revenue Act provides that the Commissioner General may send a notice to the taxpayer demanding payment of the tax when the tax is due and payable on the due date, during a sample inspection, it was observed according to the RAMIS system that the department had not been taken proper actions to collect tax arrears of Rs. 1,357,272,031 from 34 institutions for the years 2020/21 and 2021/22.	That actions have been taken in terms of Section 152 of the Inland Revenue Act No. 24 of 2017 and relevant notices have issued to the taxpayers.	Actions should be taken to recover the tax arrears.

(iii)	Even though, section 157 of the Inland Revenue Act provides that if the amount of tax due on the due date is not paid, the payer shall be liable to pay interest on the amount for the period from the due date to the date of payment of tax, 06 institutions that conducted the sample inspection had been paid a tax amount of Rs. 260,994,191 after the due date, but it was observed that an interest amount of Rs. 14,183,365 had not been charged at the rate of 1.5 percent for a month or a part thereof calculated monthly in accordance with section 159 of the Act.	In accordance with Section 157 of the Inland Revenue Act No. 24 of 2017, notices have been issued to the taxpayers regarding the collection of interest.	Interest should be recovered as per the section of the Inland Revenue Act No. 24 of 2017.
3.5.2	Examining the Appeal Settlement Process from the year 2017 to the year 2021 to the Inland Revenue Department		
	As per sub-section 14 of section 165 of the Income Tax Act No. 10 of 2006 and sub-section 5 (c) of section 139 of the Income Tax Act No. 24 of 2017, within 02 years of receipt of requests for tax appeals/ administrative reviews to the Commissioner General Determination/ Decision and the reasons for making that decision (according to the tax act in force at the relevant time) should be given and along with the above provisions to the department, following observations are made regarding 67,186 requests for administrative reviews subject to a disputed tax amount worth Rs. 3,506,179,576,488 from the year 2017 to the year 2021.		

(i)	The request made by the taxpayer entered under Received in the Tax Appeals Register, the disputed tax amount related to 2,192 tax appeals which had not been recognized as valid appeals was Rs. 7,415,062,005 had been included in the Tax Appeals Register since 2017, which had been exceeded 06 years by the audited year.	It was informed that a report containing wrong information has been given due to an omission in relation to the inquiry regarding the appeal settlement process and according to the reply letter dated 28 August 2024 under No. EAQ/2024/28/06-02, the number of appeals received as at 16 July 2024 under the Received item, but not recognized as a valid appeal, was 81 in relation to the period from 2017 to 2021 and the disputed tax amount was Rs. 607,357,128 which had been reported to the audit.	Actions should be taken to resolve appeals in a timely manner by acting in accordance with the Act.
(ii)	It was observed that 794 unresolved tax appeals with a value of Rs. 65,934,233,430 received from the year 2018 to the year 2021, which were 02 to 05 years old by the date of audit, 25 May 2023, which the Commissioner General of Inland Revenue initiated to review (CGIR Hearing) were still in the arbitration process as per the appeal register.	According to the said reply letter, by 16 July 2024, there were 374 tax appeals received from the year 2018 to the year 2021, which had been reviewed by the Commissioner General of Inland Revenue, but the determination of the appeals had not been completed, and the disputed tax amount was Rs. 77,873,323,792 which had been reported to the audit.	Actions should be taken to resolve appeals in a timely manner by acting in accordance with the Act.
(iii)	Although urgent actions should be taken to resolve the administrative reviews received to the department within the related appeal period, there are still 958 tax appeals, pending in various stages of the arbitration process	According to the said reply letter, 124 unresolved tax appeals belonging to the period from 2018 to 2021 are still in various stages of arbitration process as at 16 July 2024 and the disputed	Actions should be taken to resolve appeals in a timely manner by acting in accordance with the Act.

	since year 2017, with no specific decision and a disputed tax amount of Rs. 4,990,297,715 and it was also observed that 02 to 06 years old appeals are still in the appeal arbitration process.	tax amount was Rs. 987,920,117 which had been reported to the audit.	
(iv)	The Commissioner General of Inland Revenue had been informed the audit that the appeal settlement process has been delayed due to various reasons that most of the appeals arose during the completion of the preliminary assessment work such as appeals on assessments issued for resolution of various reasons such as unpaid tax credits brought forward due to non-confirmation of previous year's losses, previous quarter refunds, tax credits from other periods etc. and also, officials should recognize appeals as queries, but wrongly register them as appeals, and during the resolution of appeals, they have to face various problems in practice due to the problems in the system, and the data in the system is not updated.	The Inland Revenue Commissioner General had pointed out to the audit that there are many reasons that have contributed to the delay in resolving appeals.	Actions should be taken to resolve appeals in a timely manner by acting in accordance with the Act.
3.5.3	**Examination of Surcharge Tax Collections in year 2022**		
(i)	The Surcharge Tax introduced by the 2022 Annual Budget as a tax that can be levied only once, in terms of Section 2 (1) (a) of the Surcharge Tax Act No. 14 of 2022 and enacted to levy at the rate of 25 per cent on the taxable income of any individual, partnership or company whose	Although not included in the RAMIS system, the surcharge related information is correctly identified and the information is correctly accounted for. That relevant actions have been taken to collect the arrears of tax.	It is the management's responsibility to correctly identify the taxpayers subject to tax and to maintain the system up-to-date so that the tax liability is properly represented, and to take appropriate actions to

	taxable income exceeds two thousand rupees for the assessment year commencing on 1st April 2020. Furthermore, the information related to the surcharge taxes had not been entered into the RAMIS system, and the taxes had been maintained as files (manual).		recover the arrears.
(ii)	According to Section 2 (4) of the Surcharge Tax Act, every taxpayer liable to pay tax under this Act shall pay the tax to the Commissioner General in two equal installments on or before the twentieth day of April 2022 and the twentieth day of July 2022. Accordingly, when checking the information provided by the department, 08 taxpayer had not been paid the tax on the due date and the value Rs. 2,692,889,914 of the tax which had been paid late.	Although not included in the RAMIS system, the surcharge related information is correctly identified and the information is correctly accounted for. That relevant actions have been taken to collect the arrears of tax.	As per Section 2 (4) of the Surcharge Tax Act, actions should be made to collect the tax money on the due date.
(iii)	In accordance with Sections 157 and 159 of the Inland Revenue Tax Act, notices have been issued to 04 tax payers from time to time in the year 2023 asking them to pay fines and interest due to the payment of tax money after the due date, and the total interest amount related to it was Rs. 71,134,984 and a fine of Rs. 82,239,024. In addition to this, the audit has been informed that notices have been issued to one more tax payer to pay interest and fines, but the related written evidence had not been submitted to the audit.	That action has been taken to collect the relevant fines and interest in accordance with the provisions of the Inland Revenue Tax Act.	Penalties and interest due to late payment of taxes should be collected promptly.

3.5.4	**Examination of the use of Revenue Administration Management Information System (RAMIS) for tax administration.**		
	The following observations are made during the sample audit on the use of the Revenue Administration Management Information System (RAMIS) for tax collection by the Inland Revenue Department.		
(i)	The issuance of additional assessment notices for the assessment years 2018/2019 to 2021/2022 related to tax types PAYE and withholding tax (WHT) had been done outside the Revenue Administration Management Information System. As a result, the tax liability of the tax payers had not been recorded correctly in the Revenue Administration Management Information System.	That the work of systemizing the additional assessment notices was being done.	Development of RAMIS 2.0 module should be completed soon so that assessment notices can be issued.
(ii)	Due to the fact that all information related to taxes was not included in the system, the balances of the arrears tax report had not been corrected with the balances of the system and also it had been observed from time to time that the officers were unable to complete the work items due to various deficiencies in the system.	That the work on RAMIS 2.0 is expected to be completed soon.	The development of RAMIS 2.0 module should be completed soon.
(iii)	It was observed during the audit as follows that the tax administration activities of the following taxes, which have been		

	in operation since before the development of the Revenue Administration Management Information System (RAMIS) of the Inland Revenue Department, are being carried out outside the system so far.		
(a)	The betting and gambling tax, which was expected to be systematized under Phase II of RAMIS implementation, has not yet been systematized. The estimated revenue for the year 2023 from the above said betting and gambling tax is Rs. 5,500 million and the actual income in the year 2023 is Rs. 7,421,816,561 and the outstanding tax value is Rs. 5,563,543,778 were also. The number of taxpayers registered under the Betting and Gaming Tax Act was 04 for casinos and 401 for other betting and gaming businesses.	That the need to systematize betting and gambling taxes is being considered.	The development of RAMIS 2.0 module should be completed promptly and it is preferable to systematize all types of taxes.
(b)	The share transaction levy introduced and implemented by the Finance Act No. 5 of 2005, which is collected and remitted to the department by a third party such as a stockbroker or stock dealer or custodian bank, had not been included in the RAMIS system. The tax had been earned Rs. 2,477,736,910 for the year 2023 and the estimated tax revenue for the year 2023 was Rs. 1,980 million.	Agreed.	The development of RAMIS 2.0 module should be completed promptly and it is preferable to systematize all types of taxes.

(c)	It was observed that some components of collection and administration functions of social security contribution tax were being done through the Legacy computer system which was in operation until then as the RAMIS system did not provide facilities to be done through the system. It was also observed that the desired objectives of innovation and automation of revenue administration of the department are not being achieved. Furthermore, it was observed that moving from the RAMIS system back to the Legacy computer system does not fulfill the desired objectives of the RAMIS system and it is risky to enter the data again in the event that the Legacy system is gradually removed from use.	That the systemization is complete.	The development of RAMIS 2.0 module should be completed promptly and it is preferable to systematize all types of taxes.
(d)	Migrating tax was introduced in 2015 and remittance tax in 2017, and although more than 03 years have passed since the introduction of those taxes, tax administration was not done through the Income Administration Management Information System and it was also observed that there was a severe time delay between the introduction of new taxes and their systematization.	Agreed.	The development of RAMIS 2.0 module should be completed promptly and it is preferable to systematize all types of taxes.
(e)	It was observed that the administrative work related to the certain types of taxes identified by the Inland Revenue Department before the commencement of the development of the Revenue Administration Management	The development of the RAMIS 2.0 module was somewhat hampered due to the COVID epidemic situation, the economic recession and the non-contractual conditions	The development of RAMIS 2.0 module should be completed promptly and it is preferable to systematize all types of taxes.

	Information System (RAMIS) as well as taxes introduced after the commencement of the system development, had not been efficiently carried out by this system.	related to the RAMIS project in the past years, and the actions are currently being carried out in this regard.	
3.5.5	**Examination of Income Tax**		
	Following are the facts observed during the audit conducted regarding the payment of Corporate Income Tax of TIN No. 11401xxxx.		
(i)	The self-assessment reports/ Tax Returns for the assessment years 2019/20, 2021/22 and 2022/23 had been submitted by the said company, but the RAMIS system did not mention at least the tax liability mentioned in those tax returns as the tax balance to be paid. It was observed that there was an erroneous reporting of the tax income owing to the government, due to the fact that an incorrect refund had been reported in the name of the company in relation to each period.	Agreed.	RAMIS 2.0 module development and bug rectification should be completed soon.
(ii)	The corporate income tax and penalty payable at the end of the assessment year 2015/16 was Rs. 21,624,871 and it was observed that the company had not paid the tax amount till 03 May 2024 which was the date of audit and the related work items in the RAMIS system had been open for more than 08 years.	That the taxpayer had filed objections regarding disallowance of withholding tax and after concluding the proceedings in this regard and now, due to an error in the RAMIS system, it is not possible to allow the relevant tax credits and that after discussing this with the RAMIS department, the work items will be	RAMIS 2.0 module development and bug rectification work should be completed expeditiously and it is preferable to systematize all types of taxes.

		completed after allowing the tax credits.	
(iii)	During the period 2019/20 to 2022/23, only the taxes paid by the company had been reported even though self-assessment had been filed in the name of the company. Due to this, the system observed incorrect tax balances (Refund) due to be refunded to the taxpayer by the department.	This situation will be avoided when the RAMIS system is fully operational.	RAMIS 2.0 module development and bug rectification work should be completed expeditiously and it is preferable to systematize all types of taxes.
3.5.6	The following facts were observed during verification of tax registrations and payments in respect of selected importers who had imported sugar in the years 2022 and 2023 under TIN number ending 2525.		
(i)	Although two taxpayers are active taxpayers registered under No. 7000 for payment of value added tax already in the system, according to the sample audit, temporary registration numbers under TIN number 2525 had been issued to import sugar for the CIF value of Rs. 270,297,115 and Rs. 175,177,269 in the years 2022 and 2023 respectively. By issuing TIN numbers for temporary registration to the taxpayers registered under the active VAT tax system, it was observed that the internal control system established in the department is not functioning properly and such activities have not been automatically detected by the RAMIS system.	Temporary registration shall be necessarily canceled when the above companies become permanently registered for Value Added Tax and become active taxpayers. Hence, after that the goods cannot be imported by way of temporary VAT certificate. If so imported, it is a case beyond the control of the Inland Revenue Department.	An internal control system should be installed so that it is not possible to issue temporary registration numbers to active taxpayers who are permanently registered under number 7000 for the payment of value added tax and the system should be developed so that such activities are automatically detected by the RAMIS system.

(ii)	According to the sample audit, even though, among the sugar importers who have imported under the temporary VAT system, 14 importers have registered for income tax, income tax returns due before 30 November 2023 for the assessment year 2022/23 had not been submitted till 30 January 2024 which was the date of audit and the total CIF value of sugar imported by all of them under 2525 in the years 2022 and 2023 respectively was Rs. 3,580,948,952 and Rs. 8,661,150,315.	The progress of submission of income tax returns by 14 importers was reported to the audit.	Temporary registration numbers should be issued after making sure that the relevant taxes have been paid and the relevant tax reports have been provided while registering under the temporary registration tax for value added tax.
3.5.7	**Examine regarding issue of clearance certificates to liquor licensees**		
	Due to the extraction by the Excise Department of the requirement to obtain the Tax Clearance Certificate from the Inland Revenue Department when renewing their annual excise licenses in the year 2024, 443 licensees had been applied for clearance certificates from the Inland Revenue Department Head Office for the year 2024, but 241 licensees had not been come forward to get clearance certificates. When examining a sample of 40 taxpayers who have not come forward to obtain clearance certificates, it was observed that according to the Default Tax register, there is an outstanding tax balance of Rs. 187,644,815 to be collected from 21 tax payers as a 30 June 2023.	That this clearance certificate has been issued following the instructions mentioned in paragraphs 1, 2 and 4 of the series of instructions dated 20 November 2023 and that a copy of the said series of instructions and relevant information has been submitted on 25 April 2024.	Tax Clearance Certificates should be issued for obtaining Liquor licenses after ensuring that applicable taxes have been paid/ tax returns have been provided.

3.5.8	The following observations were made during the audit, in relation to the payment of annual tax and taxes on the gross sum of the Inland Revenue Department from the year 2014/2015 to the year 2022/2023.		
(i)	According to section 2 of the Betting and Gaming Tax Act No. 40 of 1988 and as amended by the Betting and Gaming Tax (Amendment) Act No. 14 of 2015, the annual tax to be paid by betting centers with live broadcasting facilities was Rs.300,000 up to the assessment year 2014/2015 (31 March 2015) and Rs.600,000 from the assessment year 2015/2016 (01 April 2015) and from 01 April 2023 it has been increased to Rs.1,000,000 and the said tax shall be paid in 4 equal installments during the assessment year and the relevant installment shall be paid before the commencement of the quarter and it was observed that registered taxpayers had not paid annual taxes worth Rs.103,450,000 for the assessment year 2023.	That Rs. 525,000 has been collected as the outstanding tax amount and 50% penalty from one tax payer and the remaining tax amount is being processed as per the Act.	Actions should be taken according to the Acts and actions should be made to collect the taxes due from the taxpayers promptly.
(ii)	According to section 2 (1) of the Betting and Gaming Tax Act No. 40 of 1988 and the amendments of the Betting and Gaming Tax Act No. 07 of 2001, Betting Centers with live broadcasting facilities shall pay the installments related to the annual tax before the commencement of the quarter, but the annual taxes already paid	That the remaining balance is being recovered from the tax payers by proceeding in accordance with the Act.	Actions should be taken according to the Acts and actions should be made to collect the taxes and penalties due from the taxpayers promptly.

	had not been paid on the due dates and there are late payments and it was observed according to the calculations made during the audit that the amount of penalty that may be prescribed in respect of such late payment of annual taxes was approximately Rs. 103,100,000 till the date of audit, 31 March 2023.		
(iii)	In the examination of the assessments issued in connection with unpaid annual taxes and late payments since 2014 related to betting centers with live broadcasting facilities, it was observed that the taxes and fines that had not been collected so far amount to Rs. 206,200,000.	That the remaining balance is being recovered from the tax payers by proceeding in accordance with the Act.	Actions should be taken according to the Acts and actions should be made to collect the taxes and penalties due from the taxpayers promptly.
(iv)	The tax payable on the monthly gross sum for certain periods of the 03 businesses from the year 2014/2015 to the year 2022/2023 had not paid before the relevant dates as required. Accordingly, it was observed that the amount of penalty still to be levied in connection with the late payment of taxes on the gross sum of betting centers with live broadcasting facilities for each year was approximately Rs. 1,679,339,966.	That the taxpayer has filed an appeal with the Court of Appeal regarding the tax arrears relating to the assessment years 2014/2015, 2015/2016.	Actions should be made to collect the taxes and penalties due from the taxpayers promptly.
(v)	A sum of Rs. 2,621,108,150 in uncollected monthly gross taxes and fines in connection with the assessments issued so far in respect of taxes and late payments on unpaid monthly gross of betting centers with live broadcasting facilities since 2014.	That an appeal has been submitted to the Court of Appeal for these arrears of tax.	Actions should be taken according to the Acts and actions should be made to collect the taxes and penalties due from the taxpayers promptly.

(vi)	Since the modules related to betting and gambling tax have not been developed in the revenue administration management information system, the income reports, tax payments, assessment issuances, progress and all tax administrative activities of the above tax payers are done through the manual files, so audit works had to be confirmed based on the accuracy of the information provided through the files. It was further observed that it was not possible to reduce the administrative work of the tax officials and to carry out the tax compliance effectively and to get the information correct and up-to-date.	That the betting and gambling tax category has been notified for entry into the RAMIS system.	The development of RAMIS 2.0 module should be completed urgently and it is preferable to systematize all types of taxes.

4. Human Resource Management

The following observations are made.

	Audit Observation	Comments of the Accounting Officer	Recommendation
4.1	**Approved Carder, Actual Carder**		
	There were 289 vacancies at the senior level, 28 vacancies at the tertiary level, 84 vacancies at the secondary level, and 105 vacancies at the primary level, totaling 506 vacancies in relation to the Department of Inland Revenue as at 31 December 2023. Simultaneously, the number of vacancies in 2020, 2021 and 2022 was 320, 387 and 437 respectively. Thus, the number of employee vacancies in the	Agreed.	Departments should take actions to recruit essential staff for vacant posts and record essential vacant posts.

department had shown a gradual growth over the years and on 31 December 2023, it was 17.6 percent of the total number of approved employees.