

1. Financial Statements

1.1. 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 2024 comprising the statement of financial position as at 31 December 2024 and the income and expenditure account, statement of changes in equity 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, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2024, 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 Opinion

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 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. Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Although the Inland Revenue Incentive Fund should be established in accordance with the provisions of Section 99 of the Inland Revenue Act No. 24 of 2017, this fund has not been established in practically so far.	-	Agreed and Inland Revenue Incentive Fund has not been practically established.	The fund should be established in practically in accordance with the provisions of the Inland Revenue Act.
(b) The performance report along with the approved financial statements of the fund had not been submitted to the Auditor Generals' within 2 months of the end of the financial year, in accordance with Public Finance Circular No. 01/2020 dated 28 August 2020.	-	A separate performance report for the Inland Revenue Incentive Fund had not been submitted previously and it has not been possible to submit in the year 2024 and instructed to the relevant officers to be submitted in 2025.	A performance report must be submitted as per the circular.

2. Financial Review

2.1. Financial Results

The operating result of the year under review was a surplus of Rs. 2.41 million while the corresponding surplus for the previous year was Rs.6.99 million. Accordingly, a deterioration of Rs.4.58 million was observed in the financial results. The previous year tea expenditure which was Rs. 36.84 million increased by 55 percent to Rs. 57.06 million in the year under review the interest income on deposit has decreased by 35 percent from Rs.1.30 million to Rs. 0.84 million due to the transfer of Rs.36.72 million from the loan deposit of the State Mortgage and Investment Bank to the treasury mainly attributed to the said deterioration.

3. Operating Review

3.1. Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A housing loan fund was established in the State Mortgage and Investment Bank with an initial deposit of Rs. 2.5 million periodically transferred by the General Treasury for the purpose of providing housing loans to officers engaged in the Inland Revenue Service. From the	Since the loan applications have not been received from officers under the incentive scheme after the year 2011 and this scheme has not been used for a long time and based on the administrative decision,	Necessary actions should be taken to fulfill the purpose of establishing the loan fund.

outstanding balance of the housing loan fund as at 30th June 2024, Rs. 36.72 million had been transferred to the treasury and the current balance of the fund was Rs. 5.57 million. The outstanding balance as at 31st December was Rs. 3.88 million still to be collected from 15 officers who had been given a loan of Rs. 14.1 million. The last loan had been given to an officer in the year 2011 and any loan had not been given to departmental officers for more than 13 years since that date.

an amount of Rs. 36.72 million from the housing loan deposit maintained under the Inland Revenue Incentive Scheme as at 30th June 2024 has been transferred to the account number 2026450 of the deputy secretary to the treasury bank of Ceylon-Taprobane branch.

- (b) According to the agreement between the Inland Revenue Department and the State Mortgage and Investment Bank, the maximum loan amount of Rs. 1 million can be received only if the applicant or spouse or dependent children do not own land or a house at the time of application. Also, in obtaining this loan amount, due to the loss of the opportunity to an officer to apply for the property loan under the government property loan scheme, due to the officials turning to the more attractive loan scheme, any applications had not been received for obtaining housing loan from this loan scheme for more than 13 years. Consequent to this, It was observed that the department had not properly reviewed the terms and conditions of the agreement signed by the department with the State Mortgage and Investment Bank.

Since the loan applications have not been received from officers and no new loan applications will be called and for closed the deposit fund of established housing loan, Rs.36.72 million from its balance has been transferred to the deputy secretary to the treasury, there is no need to review the terms of the agreement signed with State Mortgage and Investment Bank.

Necessary actions should be taken to fulfill the purpose of establishing the loan fund.