

## **Inland Revenue Incentive Fund - 2019**

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### **1.1 Adverse Opinion**

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The audit of the financial statements of the of Inland Revenue Incentive Fund for the year ended 31 December 2019 comprising the balance sheet as at 31 December 2019 and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.5 of this report, the financial position of the Fund as at 31 December 2019, and financial performance and cash flow for the year then ended do not give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Adverse Opinion**

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Based on the matters described in paragraph 1.5 of this report, I express an adverse opinion.

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

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends 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 Scope of the Audit (Auditor's Responsibilities for the Audit of Financial Statements )**

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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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Internal Control over the Preparation of Financial Statements

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The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Audit observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. have been shown under the following headings.

Audit Observation -----	Comment of the Management -----	Recommendation -----
A methodology had not been followed to properly account the revenue and expenditure of the Fund.	Discussions have been held with the Department of State Accounts on the issue relating to accounting. Accordingly, the necessity to prepare the fund account would not arise in the future.	Discussions should be held with the Treasury and the methodology for accounting should be formulated immediately.

### 1.5.2 Accounting Policy

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The rates at which the office equipment and sports equipment had been depreciated, were not disclosed in the financial statements.	The rate of depreciation could not be disclosed by mistake.	All the accounting policies that the financial statements are based on, should be disclosed.

### 1.5.3 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The financial statements of the Fund should be prepared with respect to the accountability of the transactions on the incentives of the Department of Inland Revenue. However, the sum of Rs. 955,000,000 granted on the incentives and welfare of the staff of the Department of Inland Revenue, and the sum totalling Rs. 898,391,258 incurred on the incentives and welfare during the year under review, had not been brought to accounts under the Fund. Transactions relating to all those receipts and payments had been performed through a general deposit account of the Fund.	Discussions were held with the Department of State Accounts on the issue relating to accounting. Accordingly, the necessity to prepare the Fund Account would not arise in the future.	The methodology for accounting should immediately be resolved through discussions held with the Treasury.

## 1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following observations are made.

<b>Reference to Laws, Rules, and Regulations</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Public Finance Circular, No. PF/423 dated 22 December 2006			
(i) Section 04.1 (a)	An annual budget had not been prepared thus failing to seek approval of the Minister in charge.	As the Fund had not been established through a specific Act, the Circular was not followed.	The Circular should be followed; or else, recommendations should be sought from the Treasury.
(ii) Section 04.3	The performance report had not been presented to the Auditor General along with the financial statements within a period of 02 months since the end of the year of accounts.	The Circular will be followed for the year 2019.	The Circular should be followed.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review had been a surplus of Rs. 1,176,291 as compared with the corresponding surplus of Rs. 1,116,585 for the preceding year, thus observing an improvement of Rs. 59,706 in the financial result. This improvement had mainly been attributed by the increase in the interest income by a sum of Rs. 57,564.

### 2.2 Trend Analysis on the Main Items of Revenue and Expenditure

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According to the income and expenditure account presented, the sole income of the Fund was the receipt of interest totalling Rs. 1,195,574 whereas only the sum of Rs. 19,282 on depreciation had been shown as expenditure.

### 3. Operating Review

#### 3.1 Performance

The following observations are made.

<b>Audit Observation</b>	<b>Committee of the Management</b>	<b>Recommendation</b>
(i.) The Inland Revenue Incentive Fund had been established in terms of Section 99 (1) of the Inland Revenue Act, No. 24 of 2017. According to Section 99(3) of the Act, all sums required for the welfare of officers of the Department will be paid, in accordance with any scheme approved by the Minister. The sum being appropriated by the Parliament annually in order to carry out such activities, should be paid to the Fund in accordance with Section 99(2) of the Act. However, no activity whatsoever had been carried out during the year under review in accordance with the provisions of the Act.	Since the Fund had not been established through a specific Act, the provisions of the Act are irrelevant.	Activities of the Fund should be carried out in accordance with provisions of the Act.
(ii.) A procedure for administration of the Fund had not been prepared in accordance with Section 99 (4) of the Inland Revenue Act, No. 24 of 2017.	Since the Fund had not been established through a specific Act, the provisions of the Act are irrelevant.	A procedure for administration should be prepared in accordance with provisions of the Act.

### 3.2 Management Inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comment of the Management</b> -----	----- <b>Recommendation</b> -----
<p>A housing loan fund had been established with the objective of granting housing loans to the officers by depositing the funds given by the Treasury from time to time to the Inland Revenue Incentive Fund, in the State Mortgage and Investment Bank. The cumulative balance in the housing loan fund totaled Rs. 36,502,151 as at 31 December 2019 including the deposited amount and the interest yielded annually thereon. However, as for the year under review and the 05 preceding years, no loan whatsoever had been granted to the officers from the housing loan fund.</p>	<p>Once the loan balances are settled in full, action will be taken to transfer the fixed deposit to the Treasury.</p>	<p>A policy decision should be taken on the deposited amount and the loan scheme after a thorough study.</p>