

Inland Revenue Incentive Fund - 2014

The audit of financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and cash flow statement and a summary of significant accounting policies and other explanatory Information 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. My comments and observations on the above Financial Statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Inland Revenue Incentive Fund as at 31 December 2014 and its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) A statement of income in respect of this Fund had not been presented.
- (b) Ledger Accounts had not been used to enter the loans granted under the Housing Benefit Scheme and recoveries thereof, thus the accuracy of that activity could not be confirmed.
- (c) Balance of loans amounting to Rs.15,999,726 granted to the members of the Housing Benefit Fund and the balance of money amounting to Rs.15,020,495 deposited therefor in the Bank had been shown as Housing Benefit Fund under current assets. Further, in the preparation of cash flow statements, debtor balance had been treated as cash and cash equivalents.

2.3 Reactivation of the Incentive Fund

Payment of incentives is made from the provision of Expenditure Heads since the year 2006, thus the Inland Revenue Incentive Fund was not an active Fund during the year under review. As such, out of the fixed assets valued at Rs.5,361,329 under the Incentive Fund, lands and buildings costing Rs.5,109,075 had been transferred to the Department. However, action had not been taken to transfer the office equipment and sports goods valued at Rs.252,255 which were not used for the activities of the Fund to the Department.

Nevertheless, approval of the Director General of Public Finance of the Treasury had been received by the letter dated 13 October 2014 to reactivate the Fund according to the request made by the Department for the reactivation of the Fund.

3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General of Inland Revenue from time to time. Special attention is needed in respect of the following areas of control.

- (a) Loan Control of the Housing Benefit Scheme
- (b) Fixed Assets Management