

Inland Revenue Incentive Fund - 2015

The audit of financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and Income and Expenditure Account, 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 Auditing 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 Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Inland Revenue Incentive Fund as at 31 December 2015 and its financial performance and its cash flows for the year ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Financial policies adopted in preparing and presenting financial statements had not been disclosed.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though accounts of the Fund are prepared for the accountability of transactions relating to the Inland Revenue Incentives, a sum of Rs.432,000,000 received for the payment of incentives of the Department of Inland Revenue and incentives paid by it amounting to Rs.412,825,154 had not been brought to account in the Fund. Instead, these transactions had been made through the General Deposit Account of the Department.
- (b) Even though provision for depreciation should be made for the assets that can be depreciated, non-current assets purchased by the Fund had been brought to account at cost.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules and regulations are given below.

Reference to Laws, Rules, Regulations and Management Decisions

Public Finance Circular No.PF/423 of 22
December 2006

Non-compliance

(a) Paragraph 04.01(a)

Approval of the Minister in charge of the subject had not been obtained by preparing an Annual Budget.

(b) Paragraph 04.03

Financial statements with the Performance Report had not been presented to the Auditor General within 2 months of the close of the year of accounts.

3. Financial Review

3.1 Financial Results

According to the Income and Expenditure Account presented, the receipt of interest amounting to Rs.522,357 had been the only income of the Incentive Fund and expenditure had not been reported. As such, an increase of the Accumulated Surplus by a sum of Rs.522,357 had been reported.

4. Operating Review

4.1 Operating Activities

The following observations are made.

- (a) The Housing Benefit Fund had not been operated as a Revolving Fund which would enable every officer of the Department to receive benefits.
- (b) A specific procedure had not been prepared for the administration of the Fund in terms of Section 210(4) of Inland Revenue Act, No.10 of 2006.

5. Accountability and Good Governance

5.1 Action Plan

An Action Plan had not been prepared for the Fund.

6. 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.

Area of Control	Weakness in brief
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(a) Control of Fixed Assets	Non- maintenance of necessary records on Fixed Assets and not conducting Annual Survey.
(b) Control of Housing Benefit Fund	Not operating the Revolving Loan Fund.