

Inland Revenue Incentive Fund - 2016

The audit of financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Accounting policies adopted in the preparation and presentation of financial statements had not been disclosed.

2.2.2 Accounting Deficiencies

Even though the financial statements of the Fund are prepared for the accountability of transactions relating to the Inland Revenue Incentives, the sum of Rs.529,000,000 received in the year under review for the payment of incentives for the staff of the Department of Inland Revenue and the expenditure totalling Rs.526,616,161 incurred on incentives and welfare had not been brought to account under the Fund. Instead, the transactions pertaining to all these receipts and payments had been entered into through a General Deposit Account of the Fund.

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

The following observations are made.

Reference to Laws, Rules, Regulations and Management Decisions	Non- compliance
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(a) Inland Revenue Act, No.10 of 2006 Section 210(4)	A procedure for the administration of the Fund had not been formulated.
(b) Public Finance Circular No.PF/423 of 22 December 2006 Section 4.3	The Performance Report along with the financial statements had not been presented to the Auditor General within 02 months from the close of the year of accounts.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2016 had been a surplus of Rs.1,017,117 as compared with the corresponding surplus of Rs.1,009,020 for the preceding year, thus indicating an improvement of Rs.8,097 in the financial result of the year under review as compared with the preceding year. According to the Income and Expenditure Account presented, the only income of the Incentive Fund had been the receipt of interest amounting to Rs.1,043,567 and depreciation amounting to Rs.26,450 had been reported as expenditure.

4. Operating Review

4.1 Performance

The Inland Revenue Incentive Fund had been established under Section 210(1) of the Inland Revenue Act, No.10 of 2006 and the functions of the Fund had been stated as the utilization of funds for welfare and incentive purposes of the officers in accordance with a scheme approved by the Minister in terms of Section 210(3) of the Act. Nevertheless, in terms of the provisions of the Act, no activity whatsoever had been carried out by the Fund in the year under review.

4.2 Operating Activities

A Housing Benefit Fund had been established with a view to granting housing loans for the officers by depositing the money given by the Treasury to the Inland Revenue Incentive Fund from time to time in a State bank. The accumulated balance of the Housing Fund as at 31 December 2016 including the deposited money and the annual interest earned by investing the said money amounted to Rs.33,074,123. Nevertheless, no loan whatsoever had been granted to the officers from the Housing Benefit Fund during the year under review and the preceding year.

5. Accountability and Good Governance

5.1 Budgetary Control

A budget in terms of the Public Finance Circular No.PF/423 of 22 December 2006 had not been prepared for the Incentive Fund in respect of the year under review.

6. Systems and Controls

Weaknesses 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.

Areas of Systems and Controls	Observations
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(a) Accounting	Failure to adopt a proper methodology for accounting the income and expenditure of the Fund.
(b) Operating the Housing Benefit Fund	Failure to operate the Revolving Loan Fund by utilizing the deposits in a State bank.