

Inland Revenue Incentive Fund – 2018

1.1 Adverse Opinion

The audit of the financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2018 comprising of the statement of balance sheet as at 31 December 2018 and the income and expenditure account for the year then ended, 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 submitted to 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 statements do not give a true and fair view of the financial position of the Inland Revenue Incentive Fund as at 31 December 2018 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 Adverse Opinion

An Adverse opinion is issued by me based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 adverse 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 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, 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 and disclosing matters related to going concern.

The related parties are responsible for overseeing the Fund's financial reporting process.

As per 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 the preparation of the annual and periodic financial statements of the Fund.

1.4 Scope of Audit (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:

- 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 Company'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

1.5.1 Internal Control over the preparation of financial statements

Entities are 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under these headings.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Not adopting a methodology for accounting income and expenditure of the Fund properly.	Financial Statements of the Fund as at 31 Dec ember 2019 will be prepared in accordance with the Accounting Principles and submitted.	An accurate accounting methodology should be adopted.

1.5.2 Accounting Deficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Even though the Financial Statements of the Fund are prepared for the accountability of the transactions made in relation to the Inland Revenue Incentive, the amount of Rs. 850,000,000 provided for the payment of incentives to the Staff of the Inland Revenue Department during the year under review and the expenditure totalling Rs. 788,114,525 incurred for the incentive allowances and welfare expenses had not been brought to accounts under the Fund. Transactions related to all these payments had been made through a General Deposit Account for the Fund.	In the preparation of the Inland Revenue Incentive Account as at 31 December 2019, the Incentive Account will be prepared including incentive allowances and welfare expenses of the Staff.	The Financial Statements should be prepared including all the receipts and payments of the Fund.

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

The following observations are made.

<u>Reference to Laws, Rules and Regulations etc.</u>	<u>Non-compliance</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Public Finance Circular No. PF/423			
(i) paragraph 04.1 (a)	An annual Budget had not been prepared and the approval of the Minister in charge of the Subject had not been obtained for the annual Budget.	Action will be taken in the year 2019 as per instructions issued in the Circular.	Action should be taken in compliance with the Circular.

(ii) Paragraph 04.3	The Performance Report with the Financial Statements had not been submitted to the Auditor General within 02 months after the closure of the Accounting year.	Action will be taken in the year 2019 as per instructions issued in the Circular.	Action should be taken in compliance with the Circular.
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 1,116,586 and the corresponding surplus in the preceding year amounted to Rs.1,070,639. Accordingly, an improvement of the financial result amounting to Rs. 45,947 was observed. The increase in the interest income by Rs. 43,566 had been the main reason for the improvement.

2.2 Trend Analysis of major Income and Expenditure Items

As per the submitted income and expenditure Account, the sole income of the Incentive Fund was the interest receipts amounting to Rs. 1,138,010 and depreciation amounting to Rs. 21,424 had been recorded as expenditure.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

A Housing Loan Fund had been established by depositing money provided by the General Treasury from time to time to the inland Revenue Incentive Fund in the Mortgage and Investment Bank with the objective of providing housing Loans to the Officers. The accumulated balance of the Housing Fund as at 31 December 2018 including the deposited money and the interest earned annually through investing the money was Rs. 35,306,577. However, any loan had not been provided for Officers from the Housing Loan Fund during the year under review and the previous 05 years.

Comments of the Management

Necessary action has been taken to update the activity of granting housing loans for the Officers in the future.

Recommendation

A policy decision should be taken regarding the continuation of the Housing Loan Fund after conducting a formal study.

3.2 Operational Inefficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) The Inland Revenue Incentive Fund had been established under Section 210 (1) of the Inland Revenue Act No. 10 of 2006 and in terms of Section 210 (3) of the Act, it had been stipulated that the Functions of the Fund are to utilize the money of the Fund for the welfare activities and for incentive activities of the officers as per a Scheme approved by the Minister. The money annually appropriated by Parliament for the accomplishment of the functions has to be paid to the Fund in terms of Section 210 (2) of the Act. However, any function had not been carried out by the Fund in the year under review in terms of the Provisions stipulated in the Act.	Provision is allocated from the annual estimate for the functions to be accomplished from the Fund and such money will be transferred to a General Deposit Account and the functions that should be accomplished by the Fund have been carried out.	In terms of the Provisions of the Act, functions under the Fund should be carried out.
(b) Procedure had not been formulated for the administration of the Fund in terms of the Section 210 (4) of the Inland Revenue Act No. 10 of 2006.	A committee has been appointed newly and a procedure will be formulated to administer the Fund by the Committee and the Fund will be administered accordingly.	In terms of the Provisions of the Act A procedure should be formulated.