

## **Head 246 – Department of Inland Revenue**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Inland Revenue for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) 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. The summary report containing my comments and observations on the financial statements of the Department of Inland Revenue was issued to the Accounting Officer on 28 June 2021 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Department of Inland Revenue was issued to the Accounting Officer on 22 July 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Inland Revenue as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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The Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Department of Inland Revenue is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department of Inland Revenue and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the 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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Inland Revenue's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5. Report on Other Legal Requirements

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I express the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented as per the observation shown in Paragraphs 1.6.1.1 (a) (i), (ii) and (iii) of this report.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Financial Performance

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#### (a) Receipts of Revenue

The following observations are made in accounting the revenue receipts of the department.

	<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i)	The amount of Rs. 896,632,803 of Value Added Tax revenue had been debited to the other service revenue code by a transfer sheet without identifying as per Revenue Codes. Accordingly, the accuracy of the net income in three Revenue Codes of financial services, products and other services based on value added was not ascertained in the audit.	It has been brought to accounts with a transfer sheet on the difficulty of classifying income.	It should be credited to the accurate Revenue Code.
(ii)	Even though a sum of Rs.276,892,665,273 had been credited in the Treasury Notes to the Other Income Code No. 1004-02-99 under Non-Collective Income Tax during the year under review, it was identified in the department income classification as Rs.277,898,472,965, therefore a difference of Rs. 1,005,807,692 had been appeared. This difference had been matched with the Treasury Books by adjusting to the Other Income code in the Departmental Books.	Do -	Adjustments should be made correctly identifying differences between Treasury information and Departmental Books. -

(iii) A sum of Rs. 4,130,127 had been matched with the Treasury Books by adjusting to the Other Income code, without identifying the reasons for the changes that occurred in the preparation of the revenue accounts of the Department and the Treasury Notes. - Do - - Do -

(iv) Since the steps have not been taken to reconcile the cash credited to the Treasury through the revenue collection bank accounts with bank statements and rectify the differences identified therein periodically, it was observed that there were weaknesses in the accounting control system. A considerable time will be taken to correct the identified differences. It should be taken steps to rectify differences identified in a timely manner by preparing revenue reconciliation reports and should be carried out follow up actions on that.

**1.6.2 Statement of Financial Position**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
(a) Even though the fixed assets balance as at 01 January in the year under review as per the information of the Treasury was Rs. 5,696,214,443, as per the financial statements of the Department that balance was Rs. 5,635,976,225 thus, a difference of Rs. 60,238,218 was observed. The sufficient evidence had not been presented to the audit to verify that difference.	The difference occurred due to adjustments made in the inventory survey and asset revaluation.	The sufficient evidence should be presented to the audit for adjustments made to the items mentioned in the financial statements.
(b) Although it was revealed in the financial statements during the year under review that Rs. 15,068,071 worth of fixed assets had been disposed through sales, it was reported as an entry made in correction error occurred and sufficient evidences had not been presented to the audit to verify the same.	This value is not due to sale of assets and it was made to correction error in the CIGAS program.	The sufficient evidence should be presented to the audit for adjustments made to the items mentioned in the financial statements.

- (c) Property, Plant and Equipment amount of Rs. 2,691,178 had been understated in the Statement of Financial Position in the year under review due to the acquisition of capital assets in the financial statements stated as Rs.289,913,588 in ACA – 6 Format. Accounting for these fixed assets was made through the First and Second Account Summaries of the year 2021. The accurate information should be presented in the Financial Statements of the year under review.

### 1.6.3 Arrears of Tax Income

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) According to the arrears of tax report, Although the gross arrears and penalties at the end of the year under review were Rs.697.6 billion, out of that amount, only Rs.267.4 billion, which has been identified as collectible arrears and fines, was shown in the financial statements as arrears for the year under review and at the end of the year. The Rs. 430.2 billion of held over tax arrears had not been disclosed in Form ACA-1 (i).	Action will be taken to prepare in accordance to the ACA -1(i) Format.	Details of held over tax arrears should be disclosed in the financial statements and arrears of taxes should be presented according to the Income codes.
(b) There were some instances where the arrears of Value Added Tax and Nation Building Tax had not been categorized according to income codes.	Informed to Relevant sections.	Arrears of taxes should be presented according to the Income codes.
(c) According to the arrears income report, opening tax arrears balances, collectible and held over arrears and penalties for the year under review were Rs.264.4 billion and Rs.314.8 billion respectively, bringing the total to Rs. 579.2 billion, these opening balances were not mentioned in the ACA-1 (i) format of the financial statements.	Action will be taken to prepare.	The opening balances of the Financial Statements should be stated accurately.

- (d) Although, the tax collections in the year under review from collectible and held over arrears and penalties for the year under review had not been specified in Form ACA-1 (i) in the financial statement, a sample audit revealed that Rs.2.3 billion had been recovered. Action will be taken to prepare. Information related to collection of arrears of taxes should be disclosed in the Financial Statements.

#### 1.6.4 Suspense Account

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The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
The audit observed that the outstanding tax balance had been overestimated due to an unresolved balance of Rs. 1,385 million in the RAMIS system as at 29 March 2021.	Action will be taken to settle the suspense account.	Action should be taken to settle the suspense account by identifying balances correctly and making suitable adjustments.

#### 1.6.5 Deficiencies in Maintaining Documents and Books

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The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Information related to the vehicle damages had not been updated in the register of damages.	Maintaining by Procurement and Assets Management unit.	Register of damages should be updated, complying with Financial Regulations.

## 2. Financial Review

### 2.1 Revenue Management

#### 2.1.1 Revenue Estimation

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) The Annual Revenue Estimate of the Department of Inland Revenue for the year under review was Rs. 723.7 billion and revised estimate was Rs. 575.4 billion, thus the actual revenue collection was Rs. 511.1 billion. There was a variance of Rs. 64.3 billion between revised estimate and actual collection and it was 11 percent. It was observed that the revenue estimation had not been carried out properly as the actual income had varied from 6 percent to 193 percent with the revised estimates for each income statement.	Covid-19 epidemic situation in the country and significant changes in tax policy were the reasons for this.	Actions should be taken to prepare revenue estimates accurately.
(b) Although revenue was not estimated for 06 revenue codes, by the end of the year under review, Rs. 2,731.5 million had been collected under those six revenue tokens.	Only the collection of arrears of taxes and penalties were made.	- Do -

#### 2.1.2 Collection of Revenue

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Even though the estimation had been made for remittance fee code no 10.03.11.00 amounting Rs. 1 million and Rs. 3 million for the year under review and for the preceding year respectively, no any revenue had been collected.	No such revenue collection had been received to the accounts in the year under review and for the preceding year.	Revenue estimation should be prepared more accurately, complying with Financial Regulations.

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| <p>(b) As per Note no 1 in the Financial Statement of the year under review, the net value of collection of Income Tax was Rs. 268,249,209,463 and the corresponding net income tax collection of the preceding year was Rs. 427,699,517,596. It was observed that the net income tax collection decreased by Rs. 159,450,308,133 or 37.28 percent compared to the previous year.</p> | <p>Changes made in the Inland Revenue Act No. 24 of 2017 have caused it.</p>  | <p>A system of reporting should be devised to separate the tax revenue collected as default tax from previous years, collections on self-assessment and additional assessment in the year under review.</p> |
| <p>(c) Value Added Tax and Nation Building Tax Revenue in the Financial Statements for the year under review declined by Rs.210,091,011,430 and Rs.68,321,252,447 respectively compared to the previous year.</p>   | <p>This is due to the reduction in value added tax from 15 percent to 8 percent and the elimination of nation building taxes.</p> | <p>- Do -</p>   |

### 2.1.3 Arrears of Tax Income

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- (a) The following observations are made regarding the Default Tax Income Report as on 31 December 2020.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>(i) According to the arrears tax income Report, collectible arrears taxes and penalties relating to the Revenue Administration Management Information System (RAMIS) and Legacy Systems had been increased by Rs. 3 billion from Rs. 264.4 billion to Rs. 267.4 billion compared to preceding year and held over arrears of taxes and penalties had been increased by Rs. 115.3 billion from Rs. 314.8 billion to Rs. 430.2 billion compared to preceding year. Accordingly, the total arrears revenue increase was Rs. 118.4 billion.</p>	<p>Impact of the Covid 19 epidemic and the tax concessions given to the taxpayers were caused.</p>	<p>Actions should be taken against the relevant officials and take action to collect / settle of all arrears of taxes and penalties as per the relevant tax Acts.</p>



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| (ii)  | The total arrears tax and penalty revenue of the Legacy system was Rs. 291.2 billion. Out of this, Rs. 190.8 billion had been held over due to various reasons and action had not been taken to recover the collectible arrears of tax and penalties amount of Rs. 100.4 billion.   | The amount of collectible arrears of tax and penalties in Legacy and RAMIS system, were not actually collectible amount, and various adjustments need to be made and actions will be taken to collect the arrears that can be collected. | - Do -   |
| (iii) | The total arrears tax and penalty revenue of the RAMIS system was Rs. 406.4 billion. Out of this, Rs. 239.4 billion had been held over due to various reasons and action had not been taken to recover the collectible arrears of tax and penalties amount of Rs. 167 billion.  | -  | - Do -   |
| (iv)  | Although a separate division has been established under a Deputy Commissioner General to settle the arrears of taxes and penalties as at 31 December 2020 in accordance with the provisions of the Default Tax (Special Provisions) Act No. 16 of 2010, it was observed that Rs. 31.5 billion of arrears of tax and penalties had not been settled till the end of the year under review. | -<br>Actions will be taken to settle the arrears balances.   | -<br>Actions should be taken to recover or settle the default taxes via implementing the provisions of the Default Taxes (Special Provisions) Act. |

(b) The following observations are made regarding the Arrears Tax Income Report as on 30 June 2020.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(i) Due to untimely issuance of volumes in the Legacy system, the collectible arrears applicable to the two sample tested institutions has been over estimated by Rs. 327,646,996 as at 30 June 2020.	Observations were accepted.	Volumes should be released in a timely manner.

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|-------|---|---------------|---|
| (ii)  | Due to delay in updating the prepared journal entries to adjust taxes and penalties pertaining to the Legacy system, Rs. 360,127,027 taxes and penalties relevant to two institutes as per sample, were not updated and there was a delay of 06 months to 02 months as of the audited date of 06 April 2020.        | - Do -        | The journal entries should be updated periodically.                         |
| -     |   |               |   |
| (iii) | When examine the tax arrears applicable to the RAMIS system, the estimated value issued to 13 of the sample taxpayers were Rs.5,822,238,326 and although a period of 1 to 2 years had elapsed since the issuance of the assessment notices, no action had been taken to recover the arrears of taxes and penalties. | Not answered. | Action should be taken to charge the amount of tax arrears as per the Acts. |

## 2.2 Expenditure Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) The budget estimates allocation for 08 expenditure subjects had been changed from 12 percent to 105 percent by obtaining additional provisions for the year under review and transfers from Financial Regulations 66 and 69.	The reason for the change in provisions had been revealed.	Actions should be taken to comply with Financial Regulations and prepare estimates as accurately as possible.
(b) No funds were utilized from the net allocation of Rs. 22,500,000 which allocated in the year under review for the 02 capital expenditure objects. Further, only a sum of Rs. 1,484,732,042 out of net provision amounting of Rs. 2,258,925,000 relating to 10 capital subjects and 02 recurrent subjects had been utilized. Thus, the savings were Rs. 774,192,958 and the savings ranged from 11 percent to 65 percent of the net provision.	The reason for the under-utilization of provisions was the epidemic situation in the country.	Action plan and the procurement plan should be properly prepared and the provisions should be utilized effectively.

### 2.3 Reconciliation Statements on Advances to Public Officers Account

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 The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) A debt balance of Rs. 191,514 pertaining to a deceased officer was outstanding and had not been settled by the end of the year under review.	Actions will be taken by the Department of Public Accounts.	Action should be taken in accordance with the provisions of the Establishments Code and Circulars.
(b) The total balance of loans of 10 officers, related to 3-12 months and 2-3 years after retirement were amounting to Rs. 1,341,802 and not settled till the end of the year under review.	Actions will be taken to settle the remaining loan balances.	- Do -
(c) The loans balances of Rs.350,348 pertaining to 03 officers who were suspended before 2018, were outstanding and had not been settled by the end of the year under review.	The judicial actions will be taken to settle the loan balance.	- Do -
(d) The loans balances of Rs.563,616 pertaining to 05 officers who resigned from their posts were outstanding and had not been settled by the end of the year under review.	Actions will be taken to inform officers, recover as installments and take legal actions.	- Do -

### 2.4 Liabilities and Commitments

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 The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Obligations and liabilities for Rs. 3,516,194 had been engaged for 02 expenditure objects during the year under review without any financial provisions.	Not engaged to liabilities beyond the provisions.	Any expenditure or obligation on a service or supply should not be incurred unless there is a provision in the annual estimates.

- (b) The value of liabilities These payments made It should be disclosed in the  
 undisclosed in the financial after 31 January 2021 and financial statements regarding  
 statements of the year under were not credited to the the engaging to the liabilities.  
 review was Rs. 7,037,467. account as liabilities.

**2.5 Certifications to be made by the Accounting Officer**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Even though the Accounting Officer should ensure that all audit queries are answered within the specified time frame as required by the Auditor General under the provisions of Section 38 of the National Audit Act No. 19 of 2018, 06 audit queries for the year 2021 issued up to 17 June 2021 had not been answered as at 05 August 2021.	It has been reported that delay was due to the Covid 19 epidemic situation and interim answers have been given to most of the audit queries.	Actions should be taken in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.

**2.6 Non-compliance with Rules and Regulations**

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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A Specific Human Resource Development Plan had not been prepared for the Department and based on that plan, a Performance Agreement for the entire staff had not been prepared to suit the Department.	Actions will be taken in accordance with the circular.	Actions should be taken in accordance with the circular.

## 2.7 Deposits

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) Action had not been taken to settle the total balance of Rs. 538,195 remaining more than 2 years 03 General Deposit accounts.	Actions will be taken to settle the relevant deposits.	Actions should be taken in accordance with the Financial Regulations.
(b) A sum of Rs. 2,177,821,740 relating to Stamp duty income had been retained in the General Deposit Account No. 6000-0-0-014-0-03 by the date of audit without being remitted to the Provincial Councils.	Upon receipt of the cash, it will be forwarded to the Provincial Councils	Action should be taken to remit the collected stamp duty income to the Provincial Councils.

## 3. Operating Review

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### 3.1 Assets Management

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) In order to implement 04 activities under the new Inland Revenue Act No. 24 of 2017, an agreement was entered on 01 July 2020 with a Singapore dollar 15,534,364 under Phase B of RAMIS 2.0 of the Revenue Management Information System for Tax Administration, however such work had not been completed as of the audited date. Although action was taken to receive tax returns for the year of assessment 2018/19 and 2019/20, the future process regarding those tax returns were not progressed in the system as planned.	It could not be completed in the year 2020 due to matters beyond the control of the department.	RAMIS system should be developed expeditiously to carry out the future process in accordance with the Act.
(b) The RAMIS 1.0 system was launched in 2016 and was proposed to be taken over by the Department in October 2020 and up to that date, Rs. 725 million had been paid as	The maintenance of RAMIS could not be taken over as planned due to external and	Takeover of RAMIS system to the Department should be done in a timely

maintenance and service charges. It was unforeseen manner as per the observed that the maintenance service circumstances beyond agreement. agreement, which had been extended to 31 the control of the January 2021, had been further extended for Department. three years due to preliminary work for takeover has not been done in a timely manner.

### 3.2 Losses and Damages

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 The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) During the audit of samples based on 74 Divisional Secretariats in 07 District Secretariats on the arrears of stamp duty charged by the Divisional Secretariats on the sale of liquor licenses and bottled toddy, a sum of Rs.174,701,500 of arrears of stamp duty on licenses issued for the period 2008 to 2020 had not been recovered till 31 May 2020.	Observation accepted.	Action should be taken to inform all Divisional Secretariats.
(b) It was observed at the audit of samples carried out regarding issuing licenses to liquor dealers of same business / same trade, on several occasions during the year while 13 Divisional Secretariats had issued 362 such licenses and Rs. 6,482,000 had not been recovered from the stamp duty due on such licenses.	Observation accepted.	Prompt actions should be taken to recover the correct tax amount and to prevent such situations.
(c) Eleven Divisional Secretariats had charged stamp duty of Rs. 4,209,511 less than the corrected amount when issuing liquor licenses.	- Do	- Do -

### 3.3 Management Weaknesses

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) (i) The revenue estimate given to the Department for the year 2020 was Rs. 613 billion and the Inland Revenue Department had submitted a revised revenue estimate stating that only Rs. 431 billion of revenue could be collected. The difference between the two figures was Rs. 182 billion, with a variance of 30 percent.	Not answered.	Should focus on Public Finance circulars in preparing revenue estimates and should maintain a close relationship between Ministry of Finance and Inland Revenue Department further should be aware of the indirect and direct impacts on government income by analysis of impacts through conducting an assessment of tax concessions granted.
(ii) Including the economic revival program and the impact of the COVID-19 epidemic, estimated revenue had been declined by Rs.627 billion and actual income by Rs. 464 billion as compared to the previous year, which was 60 percent and 47.62 percent respectively. It was observed that the expected objectives of the government's economic policies had not been achieved, because of preparing estimates without a proper basis and not making amendments to estimates by actively assessing the relief provided by the government in case of emergencies and providing a revised revenue estimate expeditiously.	- Do -	- Do -
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- (b) As at June 30, 2020, the number of cases filed by the department for recovery of arrears were 1739 and the amount due was Rs. 2,587,290,912. Out of those cases, 793 cases related to tax arrears amounting to Rs. 2,050,972,192 had been kept without any action. Action has been taken. That formal action should be taken to expedite the proceedings regarding the cases filed to recover the arrears of taxes.
- (c) There were 552 taxpayers in the Legacy system with a total tax refund claim of Rs. 3,963,865,684 relating to the year of assessment 2011/12 to the year of assessment 2014/2015 and there were arrears of taxes and penalties of Rs. 58,510,467,150 for the same taxpayers. Answers will be given after checking the information. Action should be taken in accordance with the provisions of the Act.
- (d) According to the arrears of taxes report (version – 0) Income Tax, Economic Service Charge and Value Added Tax pertaining to the Legacy system tax outstanding balances amounting to more than Rs.1000 were Rs. 31,065,548,562 as at 30 June 2020 and necessary actions had not been taken to recover the arrears till 30 June 2020. This situation has arisen due to non-setting of refunds for the periods prior on a timely manner. Action should be taken in accordance with the provisions of the Act.
- (e) According to the financial statements submitted by an institution to the Auditor General, the tax receivables and payables for the Value Added Tax amount as at 31 December 2019 were Rs. 837,509,421 and Rs. 558,997,052 respectively and according to the information available for audit under the Legacy and RAMIS systems, the tax refunds were Rs. 91,653,439 and Rs.7,757,555 respectively. The arrears of taxes and penalties were A complete answer was not given. Action should be taken to recover arrears of taxes and penalties and the unit administering the file should furnished the accurate information.



Rs. 24,286,833 and Rs. 429,987 respectively. It was not possible to obtain the correct information on the tax arrears and tax refunds due from the taxpayer, due to the presence of 15 unfinished work items related to VAT in the RAMIS system as at 31 December 2019 and the unit administering this file had not been furnished the correct information in that regard.

- (f) During the audit of tax balances payable by one of the corporations to the department as at 31 December 2019, according to the RAMIS system, no refunds were available in the system. However, the total outstanding arrears of tax and penalty balance was Rs. 18,398,612,329 including the outstanding tax and penalty balance of Rs.13,834,414,718 and the balance of Rs.1,043,364,943 in the legacy system as at 30 June 2020 and the balance of Rs.3,502,832,668 according to the DTRU unit as at 21 September 2020. It was observed at the inspection of the work items of the RAMIS system, there were 34 unfinished work items referred to the tax officers.
- Actions will be taken to recover arrears of taxes and penalties.
- Action should be taken to recover arrears of taxes and penalties and the work items referred to the officer should be completed.
- (g) Employers are required to deduct tax on employment income from payment of wages and remit to the Inland Revenue Department in accordance with the provisions of the Inland Revenue Act No. 24 of 2017. Among the report received, PAYE tax pertaining to a department and a state-owned company for the year of assessment 2018/2019 were checked through the computer system. It was
- Actions will be taken after discussing with the relevant institutions in this regard.
- PAYE tax should be calculated and collected in accordance with the relevant tax rates.

observed that the above two institutions had calculated PAYE tax of Rs. 6,592,513 less than the correct tax payable on the earnings of 621 officers in calculating the income tax according to the tax rates of the Inland Revenue Act based on the gross remuneration mentioned in the schedules submitted.

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| (h) | At the end of August 2020, 46,338 tax files had been submitted to the officers in Inland Revenue Department for audit by the RAMIS system from 2015 to 2019. And only 27,747 tax files had been completed. In addition, all of 64,193 work items under the WI_Audit_Perform_Risk Assessment, had been remained unfinished as at the audited date. | Action had been taken to inform the relevant Senior Commissioners to complete these work items. | Necessary action should be taken to complete the relevant work items.  |
| (i) | The task of formulating research information standards and criteria to increase the tax revenue of the health sector and construction services sector had not been completed due to a shortage of 09 officers for 5 posts, according to the action plan for the year 2019 in Research Planning and Innovation unit.                               | The target tasks have been revised due to not having enough staff.                              | Adequate staffing should be maintained and basic targeted tasks should be performed as set out in the action plan. |
| (j) | The following observations were made during the inspection of the appeals which were subject to the time bar included in the 2018 appeal list which was updated in the RAMIS system as at 20 September 2020.  | Part of the appeals have been identified and resolved and other part is yet to be completed.    | That action should be taken in accordance with Section 165 (14) (a) of the Inland Revenue Act No. 19 of 2006.      |
| (i) | The total amount of disputed taxes and penalties in 61 appeals (Accepted)pending for more than 2 years after receiving the appeal, were   |   |  |

Rs. 577,189,148. There were also 79 appeals referred to the Commissioner General of Inland Revenue, including disputed taxes and penalties amounting to Rs. 15,280,049,777.

- (ii) There were 474 taxpayer referrals that had not been categorized as tax appeals and inquiries which had not been confirmed for further actions. Taxes and penalties relevant for those items were Rs. 1,316,489,719 and Rs. 269,899,192 respectively. It was observed that these referrals could be included tax appeals also.

### 3.4 Sustainable Development

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The following observations are made.

#### Audit Observation

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The Department had not formulated Sustainable Development Strategies and the relevant activities had not been included in Annual Action Plan for the year 2020.

#### Comments of the Accounting Officer

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Actions are being taken.

#### Recommendation

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Action should be taken in accordance with the provisions of the Act.

### 3.5 Human Resource Management

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The following observations are made.

#### Audit Observation

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- (a) By the end of the year under review, 320 vacancies had not been filled, which was 11 percent of the approved workforce.

#### Comments of the Accounting Officer

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At the end of the year under review, there were 320 vacancies.

#### Recommendation

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Vacancies for essential posts should be filled as approved.

- (b) There were 206 vacancies at the senior level, including 07 posts of Deputy Commissioner General, 12 posts of Senior Commissioners and 52 posts of Commissioners. It was observed that 71 vacancies were covered by acting basis which was 59 per cent of the approved posts. It was observed that this situation could affect the efficiency of the new income tax administration computer system and the completion of related work items timely.
- The Commissioners are attached on an acting basis with approvals.
- Action should be taken to fill the posts for essential duties, covered by acting basis.
- (c) Out of 31 vacancies at the tertiary level, 28 vacancies are IT officers and it was observed that the delay in taking over the new Income Tax Administration Computer System (RAMIS) and its maintenance to the Department had a direct impact due to non-recruitment of such IT officers.
- Action have been taken to inform to the Ministry of Public Service, Provincial Councils and Local Government to fill the posts.
- Action should be taken to recruit essential posts for vacancies.