

Head 246 – Department of Inland Revenue

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Inland Revenue for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 31 May 2022 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department of Inland Revenue was issued to the Accounting Officer on 29 July 2022 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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 2021, 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

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 Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is 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

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

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. (a) and 1.6.3 of this report.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

(a) Receipts of Revenue

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

	Audit Observation	Comments of the Accounting Officer	Recommendation
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(i)	The amount of Rs.889,326,710 had been entered as “collections by other departments” in the other income code No.10.04.02.99 in the income statement for the year ending 31 December 2021, without identifying the reasons for the differences in the control accounts and matching them to the relevant income codes. Accordingly, the accuracy of the net income of the tax accounts belonging to the other income control account had not been ascertained in the audit.	Even though the reasons for the change are identified and the necessary adjustments are made promptly, the reporting has not been done properly as revised income classification reports are not prepared again.	Differences between treasury information and departmental books should be accurately identified and adjustments should be made.
(ii)	The amount of Rs.33,615,024, which was mistakenly accounted under the income code No.10.03.11.00 (Remittance Charges) in March 2021, and had been accounted under the correct income code (10.04.01.03 Remittance Taxes) by the transfer slip dated 07 February 2022. However, it was observed that the amount was recorded as refund from revenue by cash in remittance charges in the income statement for the year ending 31 December 2021.	An omission has occurred and the actions will be taken to rectify.	Accounts should be prepared as per the guidelines issued by the Treasury.

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| (iii) | Department did not have a methodology to identify Sri Lankan citizens who are permanently leaving Sri Lanka, to determine the foreign exchange they take out from the country and to determine the tax amount regarding migrating taxes. Furthermore, there was a difference of Rs.2,561,835 between the migrating tax value cleared by the Business Advisory Division during the year under review and the migrating tax value included in the income statement. | This tax has to be levied on factors beyond the control and therefore cannot be predicted in advance. | It is necessary to adopt an appropriate methodology to determine the tax amount and the reasons for the difference should be classified. |
| (iv) | According to Public Accounts Guideline No. 2021/03 dated 26 November 2021, even though the readjustment of comparative figures for the year 2020, due to the changes made in the financial statement format should be disclosed under “Reporting Basis”, adjustments made in respect of income receipts and refunds had not been disclosed. | It was not included in the relevant circular downloaded on 06 December 2021. | Actions should be in accordance with the provisions of the relevant circular. |

1.6.2 Arrears of Tax Income

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though Rs.49,186,793 has been recorded as write-off amount of arrears of income in Form ACA 1 – i in the Financial Statements as at 31 December 2021, a difference of Rs.1,909,217,687 had been observed against the value of Rs.1,958,404,480 as per the information obtained from the Defaulted Tax Recovery Unit.	The reasons for the change are not fully explained.	Values should be uniformly updated in financial statements and other sources.

1.6.3 Suspense Account

Audit Observation	Comments of the Accounting Officer	Recommendation
----- The balance of arrears tax had been overstated, due to an unresolved suspense balance of Rs.5,974 million in the RAMIS system as at 31 December 2021.	----- It is a very difficult task to settle them, until requests are submitted with correct documents for corrections from the taxpayers or the concerned banks.	----- The balances related to the suspense account should be accurately identified, adjusted and settled promptly.

1.6.4 Deposits

The following deficiencies were observed in the payment of deposits and accounting for balances relating to the financial statements.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) According to the January and February income classification reports of the year under review, stamp duty income worth Rs.153,893,730 collected under the online system had been adjusted to the opening balance of the deposit account No. 6000-0-0-14-3 instead of being credited to the income. Therefore, deposit receipts in the year under review had been understated by that amount.	Actions will be taken to make the relevant corrections.	According to the financial regulations, all receipts for the year should be recorded in the deposit ledger.
(b) The stamp duty revenue of Rs.807,851,027 remitted to the general deposit account by the Public Finance Department through transfer papers as at 31 December of the year under review, had been recorded in the opening balance of the year under review instead of being recorded as receipts on that date in the deposit ledger.	Actions will be taken to rectify, using the relevant notes.	According to the financial regulations, all the receipts related to the year should be recorded as receipts in the books of the department.

- (c) According to the departmental ledger, the payment value for the year under review in deposit account number 6000-0-0-14-3 was Rs.8,736,217,641, but according to the consolidated trial balance, it was Rs.9,983,640,266 and a difference of Rs.1,247,422,625 had been observed. Actions will be taken to make accurate reconciliations as per the financial regulations. The departmental books should be compared with the books of the Treasury and necessary actions should be made as per financial Regulations.

1.6.5 Property, Plant and Equipment

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) Even though all the assets belonging to the department should be assessed and accounted according to the guidelines of the Public Finance Circular No.01/2017 dated 28 June 2017, the lands and buildings in Kurunegala and Nuwaraeliya, where the department's offices are located, had not been assessed and accounted at the end of the year under review. Furthermore, the evidences for the relevant procedures were followed, assessed and accounted in accordance with paragraph 01 of the above guidelines in relation to 53 motor vehicles worth Rs.190,235,000 included in the assets of the reviewed year, had not been submitted to the audit.	Actions will be taken to obtain valuation report and account and evidence has been submitted in respect of motor vehicles.	As per the circular, all the assets belonging to the departments should be assessed and accounted.
(b) The value spent so far for the construction of the new vehicle yard of the department or the assessed value of the construction had not been accounted as work in progress and for this purpose, an estimate of Rs.176,000,000 had been made under the rehabilitation and improvement of capital assets.	Actions will be taken to account.	- Do -

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| (c) | According to the letter of National Budget Department No.BD/GSP/2017/Vehicle/Remittal iii dated 22 December 2021, 29 vehicles taken over under finance lease worth Rs.69,282,150 had been adjusted to the opening balance instead of being accounted under transfers of the year under review. Due to the fact that the value of those 29 vehicles had been re-accounted as Rs.167,775,000 in the opening balance on 01 January 2021, the value of non-financial assets had been overstated by Rs.69,282,150 as at 31 December of the year under review. | Actions will be taken to rectify. | When accounting assets, only the relevant value should be accounted. |
| (d) | According to the statement of financial position for the year under review, the value of the vehicles acquired under the financial lease was Rs.57,997,825 and a difference of Rs.44,615,689 had been observed due to the fact that the capital expenditure was only Rs.13,382,136 according to the statement of financial performance. | - Do - | It is the responsibility of management to maintain accurate accounts. |
| (e) | Even though the vehicles worth Rs.6,415,000 were physically transferred to other departments and institutions in the year under review, the non-financial assets as at 31 December 2021 had been overstated by the same value, due to the fact that the necessary adjustments were not made in the accounts. | - Do - | - Do - |
| (f) | Although, the value of the financial lease assets of the department was Rs.15,522,175 on 31 December 2020, it had been brought forward as Rs.73,520,000 on 01 January 2021. The reasons for this change had not been disclosed in the notes to the financial statements for the benefit to the users of financial statements. | Actions will be taken to apply such notes in the future. | Quantitative adjustments to the values in the financial statements should be disclosed in the notes. |

1.6.7 Evidences not made available for Audit

Audit Evidence on the following transactions had not been made available.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Six files related to vehicle accidents that happened in 2020 and 2021, 13 vehicle repair files and 09 log books had not been submitted to the audit.	Actions have been taken to send 06 files related to vehicle accidents for audit.	Actions should be taken in accordance with section 7(1)(b) of the National Audit Act No. 18 of 2018.
(b) Annual board of survey reports had not been submitted regarding vehicles worth Rs.500,812,150 belonging to the department.	Departmental vehicles were not surveyed and will be surveyed in the future.	All vehicles should be surveyed as per the financial regulations and circulars.

2. Financial Review

2.1 Revenue Management

2.1.1 Revenue Estimation

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to Finance Regulation 85(1)(c) and Finance Regulation 128(2)(a), Revenue Accounting Officers should endeavor to prepare revenue estimates that are complete, as realistic and accurate as possible. Although the original revenue estimate for the year under review was Rs.685.5 billion, the revised estimate was Rs.612.6 billion. The actual income was Rs.619.7 billion and there was no significant variation between the estimated income and the actual income since the estimate was revised at the end of the year. Therefore, it was observed during the audit that the department's estimate revising process is untimely and not realistic.	It cannot be accepted that the revenue estimation has not been done properly, since the actual income has fluctuated within different ranges with revised estimates on consideration of individual revenue codes.	Revenue estimates should be prepared as accurately, timely and realistically as possible in accordance with financial regulations.

- (b) It was not observed that the revenue estimation was done properly since a variation ranging from minus 421 per cent to 90 per cent had been observed in comparing the estimated income with the actual income in each revenue codes. - Do - - Do -
- (c) Since the taxes related to those revenue codes have been abolished by 01 January 2019, there is no revenue estimate for 05 revenue codes in the year under reviewed and the income collected during the year can be considered as cash collected from the arrears of tax revenues. Accordingly, even though 'Revenue Collection' as per Statement of Revenue for the period ended 31 December 2021 and Arrears of the reporting year' as per Statement of Arrears of Revenue (ACA-1(i)) for the year ending 31 December 2021 should be same, a difference of Rs.4,382,760 had been observed between them. The revenue estimates have not been prepared as the taxes applicable to the respective revenue codes have been abolished. The reasons for the difference should be identified and rectified.

2.1.2 Arrears of Tax Income

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) According to the RAMIS computer system, the total arrears of tax and penalty was Rs.345,340,426,517 as at 31 December 2021, out of this the 'collectible arrears of tax and penalty' was Rs.81,165,991,314. Accordingly, the amount of 'held over arrears of tax and penalty' throughout the year 2021 exceeded 76 per cent of the total value of arrears of tax and penalty. Although the arrears of tax and penalty balance as at 31 December 2021 had been decreased compared to the arrears of	As per the instructions given by the Committee on Public Accounts meetings, the collectible arrears of tax and penalty and the held over arrears of tax and penalty balances have been amended.	Action should be taken to collect/settle the arrears of tax and penalty timely and promptly collect/settle all arrears of tax and penalty balances that can be collected/settled from the actual outstanding balance by implementing all the actions indicated in the relevant tax acts.

tax and penalty balance as at 31 December 2020, it was observed that the balance of held over tax and penalty had been increased by Rs.24,755,856,830 that is a significant level of 10 per cent.

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| (b) | According to the Legacy system, total arrears of tax and penalty was Rs.274,385,677,703 as at 31 December 2021, out of this the 'collectible arrears of tax and penalty was Rs. 78,459,139,039. Accordingly, the amount of 'held over arrears of tax and penalty' throughout the year 2021 exceeded 70 per cent of the total value of arrears of tax and penalty. Although the arrears of tax and penalty balance as at 31 December 2021 had been decreased compared to the arrears of tax and penalty balance as at 31 December 2020, it was observed that the balance of held over tax and penalty had been increased by Rs.5,104,328,625 that is a significant level of 2.6 per cent. | - Do - | - Do - |
| (c) | Even though the Department maintains Divisions and Regional Offices for the convenience of maintaining details of taxpayers, there were balances of Rs.62,989,726 and Rs.12,230,753 respectively as arrears of tax and penalty for taxpayers whose categories were not identified in the RAMIS Tax in Default report as "Other". | Actions are being taken to rectify. | The taxpayers included in it should be allocated to the respective units. |
| (d) | The department has introduced the RAMIS computer system since the year 2016 and now it has been 06 years, but the old computer system (Legacy computer system) is still being maintained. Also, the department had to continue to maintain the system and incur costs, | A new contractual agreement has been signed for retaining the database in the Legacy system that handles tax periods prior to the RAMIS period. | Actions should be expedited to achieve the objectives of implementation of the RAMIS system. |

due to the department did not establish a proper procedure to settle the balance of the Legacy computer system for the period of 2016-2021. It was also observed that a new contract agreement worth Rs.96,041,180 (excluding tax) had been signed for the implementation of a recovery plan for the maintenance of the IBM Main Server and Informix Software related to the old Legacy computer system in the year 2021.

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| (e) | It was observed that Rs.224,957,661,674 that is 82 per cent consists of income tax and value added tax among the total arrears of taxes and penalty under the Legacy computer system and Rs.329,155,597,326 that is 95 per cent consists of income tax and value added tax among the total arrears of taxes and penalty under the RAMIS computer system. According to the age analysis, it was further observed that it had not been possible to collect tax and penalty on the added value of Rs.79,868,168,080 to the government directly and indirectly from the suppliers in the RAMIS and Legacy computer systems. | That balance also includes the outstanding amount of 'held over' tax and penalty. | Actions should be taken as per the provisions provided by the Acts to promptly collect the value added tax and penalty payable directly and indirectly to the Government by the suppliers. |
| (f) | According to the sample audit conducted in connection with the issuance of assessment reports by the system, it was observed that the 'collectible' tax revenue stated in the financial statements of the year under review had been understated by Rs.650,767,363 due to the non-updated issuance of assessment reports to the taxpayers. | Necessary actions should be taken to collect the arrears of tax after the issuance of levy notices without delay. | Levy notices should be issued timely and promptly. |

2.2 Management of Expenditure

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) The total net allocation of Rs.10,190,000 for 02 recurring expenditure objects had been remained unutilized.	Provision has been remained on various reasons.	Action plan and procurement plan should be properly prepared and allocations should be utilized effectively.
(b) A sum of Rs. 802,997,060 had been remained due to the utilization of Rs.3,352,720,440 out of the net allocation of Rs.4,155,717,500 for 13 recurrent expenditure objects and ranged from 06 per cent to 74 per cent of the net provision. And after the revision, the allocations for 03 objects had been remained from 24 per cent to 74 per cent of the annual net allocations and due to this, it was observed that there are weaknesses in the preparation of estimates.	- Do -	- Do -
(c) Although a net provision of Rs.1,779,800,000 had allocated for 06 capital expenditure objects, a sum of Rs.863,666,676 had been remained since only Rs.916,133,324 was used, which was in the range of 07 per cent to 94 per cent of the net allocation.	- Do -	- Do -
(d) According to the Financial Regulation 50(II), estimates should be prepared as fully and accurately as possible, but the basic expenditure estimates in relation to 10 expenditure objects had been changed by minus 17 to 71 per cent.	The provisions have been transferred on various reasons.	Actions should be taken to comply with the financial regulations.

2.3 Exceeding limits

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>A difference of Rs.6,061,215 had been observed from the minimum receipt limit of Rs.95,000,000 which was prescribed by the Appropriation Act to the Department and the actual receipt value of Rs.88,938,785. Although recommendations were given by the Director General of the National Budget Department to the Secretary of the Ministry of Finance to revise the minimum receipt limit to Rs.85,000,000, the approval had not been received from the Minister of Finance by 18 March 2022. Accordingly, as per Section 08(02) of the Appropriation Act No. 07 of 2020, the above limits have not been approved by the Parliament through a resolution and it was observed as non-compliance with the limits of advance accounts.</p>	<p>Necessary actions are being taken to obtain approvals from the Parliament.</p>	<p>It should be ensured to identify the need for limits revision early or to work within the approved limits.</p>

2.4 Incurring of Liabilities and Commitments

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The value of undisclosed liabilities in the financial statements of the year under review was Rs.367,108,899.</p>	<p>These liability amounts have not been included in the liability register due to an omission and the officers have been informed to avoid such omissions in the future.</p>	<p>All liabilities should be disclosed in the financial statements.</p>
<p>(b) According to the financial statements as at 31 December 2021, the amount of existing commitments in the statement of liabilities and commitments was Rs.71,996,432 and the amount of outstanding commitments was Rs.22,819,193 as at 31 March 2022.</p>	<p>They have not yet been paid since there were deficiencies in the particular circulars.</p>	<p>Commitments and liabilities should be settled in due time.</p>

2.5 Certification of Accounting Officer

Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department 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. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.	The internal control weaknesses pointed out by the audit queries have been rectified and responses have been submitted.	Periodic reviews should be done and a copy of the report should be submitted to the Auditor General.
(b) The Accounting Officer should ensure that all audit queries be answered within the specified time as required by the Auditor General. However, in terms of paragraph 3.6 of the report, audit queries had not been answered.	Answers have been provided for 41 out of 44 audit queries related to the year 2021 and 15 out of 22 audit queries related to the year 2022 and necessary actions are being made to promptly provide answers to the remaining audit queries.	All audit queries should be answered within the specified time limits.

2.6 Non-compliance with Laws, Rules and Regulations

Audit Observation	Comments of the Accounting Officer	Recommendation
According to Section 3.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016 regarding the maintenance of government vehicles, the fuel tests had not been done for 75 vehicles which belonging to the department.	Actions were taken for it from the year 2022 but stalled due to fuel shortage.	Actions should be taken to comply with the circulars.

2.7 Issuance and Settlement of Advances

2.7.1 Issuance of Interim Imprests

Audit Observation	Comments of the Accounting Officer	Recommendation
According to the Public Finance Circular No. 03/2015 dated 14 July 2015 and the revised Financial Regulation 371(5), the interim advance obtained should be settled within 10 days after the completion of the relevant tasks but the sum of Rs.132,610 for 08 cases had been settled with a delay of between 10 and 39 days after completion of the relevant tasks.	Settlement of advances has been delayed due to various reasons.	Actions should be taken to comply with the circulars.

2.7.2 Advances to Public Officers Account B

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The loan balance of Rs.350,614, which should have been collected from two deceased officers from the year 2012 to the year 2021, had not been recovered until 31 December of the year under review due to non-compliance with Paragraph No. 4.4 of Chapter XXIV of the Establishment Code and due to non-compliance with the instructions of the Director General of Pensions.	Actions are being taken to recover the outstanding balance due from one officer from the death gratuity.	Actions should be taken to comply with the Establishment Code and the circular.
(b) A loan balance of Rs.689,640 which should have been recovered from 05 officers who were retired from 03 months to 04 years remained unpaid until 31 December of the year under review.	Actions are being taken to recover the outstanding loan balance from the retirement gratuity.	- Do -

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| (c) | Necessary actions had not been taken to recover the loan balances of Rs.217,933 related to two officers who were suspended from work from the year 2012 to the year 2017. A property loan taken by one of the officers had been classified as a distressed loan. | The property loan balance obtained by one officer is being rectified which included by an omission and the loan balance of the other officer is being settled. | - Do - |
| (d) | A loan balance of Rs.561,073 related to 05 officers who left the post remained unsettled as at 31 December of the year under review. | Actions are being taken to recover the loan balance of one officer in installments and from other officers. | - Do - |
| (e) | A loan balance of Rs.360,000 owed by two officers for a period of 1-2 years under another model remained unpaid as at 31 December of the year under review. | - Do - | - Do - |

2.8 Deposits

Audit Observation	Comments of the Accounting Officer	Recommendation
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Actions had not been taken to settle the deposit balances of Rs.14,201,555 which should have been considered as overdue deposits, according to Financial Regulation 571, which exceeded 02 years in 02 general deposit accounts.	Actions are being taken to settle.	Actions should be taken to comply with the Financial Regulations.

3. Operating Review

3.1 Planning

The following observations are made from the inspection of information included in the action plan and performance for the year 2020 of the Intelligence Unit of the Department.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The goals for the intelligence unit had not been clearly stated in the annual action plan prepared in the year under review and although the time frame for that was stated as 06 months, according to the information received for the	Necessary actions will be taken to prepare a proper schedule to gain the respective targets in the coming years.	A plan for completing the role should be clearly defined.

inspection to the unit, a suitable time frame had not been clearly given for the completion of the role.

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| (b) | Even though only 22 files out of the 161 inspection files received in the year 2020 had been completed by the audit date of 06 December 2021, 05 months to 01 year and 06 months had been passed from the date of receiving the information to complete those activities. | Investigations were delayed since a long time to get information for conducting investigations, people did not come forward for interviews and the operating of the tax amnesty act. | An efficient procedure should be implemented to complete the tasks without delay and thereby collect the default tax revenue. |
| (c) | Even though it has been stated that 139 investigations out of 161 of information received to the Intelligence unit from 01 January to 31 December 2020, have been started on the same day of the information was received, plans had not been prepared review to complete the investigation till 31 December of the year under review. It was also observed that even though more than one year has passed since the information was received, the work on those files had not been completed. | It was not possible to complete the investigations due to the difficulty of going out for investigation work and summoning individuals due to the 2020 election and the 2020 Covid situation etc. | 86 per cent of the files were not completed and actions should be taken to bring up the performance of the unit to the desired level. |
| (d) | Even though the investigations carried out by the Intelligence unit were able to recover a large amount of default tax revenue to the government, it was observed that there was no sufficient staff, formal plan and formal internal control system. | Further actions will be taken to carry out the relevant investigations under a formal plan. | A system should be developed to complete the role assigned to the unit within a specified period of time. |

3.2 Projects abandoned without completing

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
The contract for the construction of vehicle yard worth Rs.273,468,649 under the renovation project of the Inland Revenue Department's main office building had not yet been completed and handed over to the	That only the works related to the installation of the elevator in the vehicle yard remained and the discussions are being held with the State Engineering Corporation	In order to fulfill the objectives and tasks of the department, this project should be completed as soon as possible, handed over

department after the extension of dates from time to time. The project, which has been built at an estimated cost of 80 per cent, had not been yet fully completed and some parts related to the construction were decaying.

regarding the completion of the work.

to the department and the assets should be fully utilized.

3.3 Procurements

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) A master procurement plan incorporating anticipated procurement activities for a period of at least three (03) years had not been prepared as per Section 4.2.1 of the Procurement Guidelines. Further, although, the approved total cost estimates including all associated costs related to each project should be included in the procurement files as per section 4.3.1, it was observed in sample audit, properly prepared and approved total cost estimates had not been included in the files.	The officers have been instructed to make properly in the future.	Actions should be taken to comply with the Procurement Guidelines.
(b) The Inland Revenue Department had installed a PABX system worth Rs.2,851,725 (excluding tax) for the 24th and 25th floors of the “Mehewara Piyasa” office. However, the inter-branch connectivity, which is an item of the technical specification of this contract agreement, had not been delivered by 30 September 2021.	Considering the technical aspects, it is recommended to purchase from the contractor who supplied the system at the head office and the interconnection problem is not in the system.	- Do -
(c) The period for use of the Indian Transfer Pricing Data System (Capitaline) used by the Department's Transfer Pricing unit had been ended on 31 May 2020. Again, this system had been purchased for US\$ 4,550 (Rs. 916,925) on 01 April 2021 that is a delay of about one year, therefore, the related procurement activities had not been done on time.	It took time to get technical evaluation committee recommendations and procurement committee approvals regarding the increase in the relevant fee and the pandemic situation also affected it.	Actions should be taken to comply with the Procurement Guidelines and contribute effectively to the performance of the unit.

3.4 Assets Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Since the 02 transformers provided by the department during the renovation of the building were not connected to the main electricity system, those machines had not been used since 2010. 70 cameras belonging to the CCTV camera system installed in the main building of the department at a cost of Rs.7,985,992 were not handed over to the department by the State Engineering Corporation, had ben remained inactive even though 12 years have passed beyond the warranty period of 01 year. Due to this, the desired security for installing a CCTV camera system had not been provided.</p>	<p>The CCTV camera system will be brought back into operation in the future by using the devices that can be used now.</p>	<p>Assets should be fully utilized so that the objectives and tasks of the department can be fulfilled.</p>
<p>(b) It was observed that 9 vehicles had been idled during the physical inspection carried out by the audit regarding the vehicles in the departmental premises on 02 February 2022 and the running charts related to each of those vehicles had not been submitted for audit within the period of 06 months to 02 years.</p>	<p>They need to be repaired and out of service due to repair works.</p>	<p>Repairs should be done promptly and put into operation.</p>
<p>(c) According to the Paragraph no 04 in the Public Administration Circular No. 30/2016 dated 29 December 2016 related to the maintenance of government vehicles, the procedure to be followed for carrying out the repair works without delay is specified, contrary to that, the repair works of 06 vehicles in the year 2020 and 2021 had not been completed by the date of audit, 21 February 2022.</p>	<p>Delays were due to unavoidable factors such as shortage of staff due to the Covid-19 pandemic situation, closure of auto repair shops and non-availability of days due to receiving many orders after opening.</p>	<p>Actions should be taken to comply with the circular.</p>

- (d) The following observations are made during the performance review of the Revenue Administration and Management Information System (RAMIS).
- (i) The information called by the letter No. PUR/D/IRD/INFO/2021/85 and dated 01 October 2021 to obtain information about the RAMIS system has not been received for the audit so far. Time has been taken to provide the information due to the problems in providing the information called for audit should be provided promptly.
- (ii) The officials in the departments dealing with the tax refund had not been able to issue any work item through the system due to the non-development of the 2B module of the RAMIS system related to the income tax refund in the assessment year 2018/19. Due to this, an additional interest rate of 0.5 per cent per month may be payable as per Section 159(2) of the Inland Revenue Act No. 24 of 2017 due to non-updated refund based on the claim for tax refund in terms of section 158 of the Act. The delay in the development of Module 2B of the RAMIS system is due to reasons beyond the control of the department and if any need to pay interest arises, it is possible to take a policy decision to avoid the risk of paying interest. Modules of the RAMIS system should be developed as per the relevant time frame and work items should be issued expeditiously.
- (iii) According to the RAMIS system, in relation to the tax file TIN No.134048336, within 5 years from the assessment year 2015/2016 to the assessment year 2019/2020, a single audit work item had not been implemented among the work items of Detail Audit, Rapid Audit and Perform Detail Audit. It was also observed that 21 unfinished work items related to tax matters had been directly affected the process of tax and penalty collection. 14 of the 21 unfinished work items have been completed and the remaining 07 work items and 10 subsequent work items are being proceed. An audit for tax files should be conducted periodically and work items should be completed on or before the due date.
- (iv) From 01 January 2016 to 03 November 2021, 96,489 tax returns remained unfinished under the work item WI_verify_Content_of_RTN_DOC and most of these tax returns were related to the year 2018/2019. And the highest number of tax returns was related to the Central Document Management Unit. This work item does not directly affect tax administration or loss of revenue. Unfinished work items should be completed promptly.

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| (v) | From the year 2016 to the year 2020, 731,801 tax returns had not been received for 339,011 tax files and among these tax returns 345,377 returns or 47 per cent were related to the year 2018/2019. Further, 34 per cent related to nation building taxes and 21 per cent related to Medium Corporate Entities sector. 1,657 tax returns had been remained without specific sector identification. | This situation should change now as the officials started their duties after the epidemic in 2020 and 2021. | According to the provisions of the Tax Acts, quarterly or annual tax returns should be promptly brought from the tax payers. |
| (vi) | There were only unfinished work items for 60,837 pending tax returns related to 42,396 tax files as at 31 December 2020 and it was observed that the work items had not been issued to the officers for all cases that have not been handed over, and no work items had been issued through the system for the years 2018/2019 and 2019/2020. | The delay in issuing work items related to non-received returns is due to delays in RAMIS 2.0 development. | Relevant modules of the RAMIS system should be developed and work items should be issued promptly. |
| (vii) | The system in the RAMIS system had not been updated to automatically identify and notify taxpayers who exceed the threshold of Rs.300 million applicable for VAT registration in terms of Section 11 of the Value Added Tax Act No. 14 of 2002 (Amended). | It has been informed on several occasions to make relevant changes to in-charge unit for RAMIS system. | Changes in tax laws should be promptly updated in the RAMIS system. |
| (e) | The following observations are made during the inspection of the unfinished work items of retired, deceased and suspended officers in the years 2020 and 2021. | | |
| (i) | In relation to the years 2015, 2016, 2017 and 2018, There were 1196 work items related to time delay as per Section 163(5) of the Inland Revenue Act No. 10 of 2006, 108 work items related to time delay as per Section 33(1) of the Value Added Tax Act No. 14 of 2002 and 219 work items related to be time delay as per Section 135(2) of the Inland Revenue Act No. 24 of 2017. | There is no risk of loss of revenue due to delays in the implementation of RAMIS 2.0 as an alternative system is being introduced for tax returns for the 2018/19 time frame. | A system should be implemented to reassign unfinished work items timely. |

Due to the existence of work items under WI_Return_Review_by_PTA, it was observed that the tax administration, tax arrears and penalties related to those tax files had not been able to be collected efficiently.

- (ii) Also, there were 21 unfinished work items under the WI_CGIR_Hearing work item, for tax periods from 2015 to 2018. In terms of Section 165(14) of the Inland Revenue Act No. 10 of 2006 or Section 34(08) of the Value Added Tax Act No. 14 of 2002 (as applicable), relevant tax files are subject to time delays and it was observed that it may not be possible to carry out tax administration and tax arrears and penalties efficiently.
- Files are forwarded to the Commissioner General physically and decisions taken after hearings are made before the appeal time limit.
- Reassignment of unfinished work items should be done promptly.

3.5 Losses and Damage

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) An additional cost of Rs.412,002 had to be incurred as late payments for the 11 months from December 2020 to October 2021 due to the delay in settlement of electricity bills issued under the G.P-2 tariff for the head office and 04 regional offices of the department.	Due to the covid situation, receiving of bills was in poor condition.	Actions should be made to collect and pay these electricity bills on time.
(b) A sum of Rs. 1,334,696 had been paid for 206 idle telephones in the department's head office and scout building for the 11 months from January to November 2021 and Rs.76,393 had been incurred for unused facilities for idle PEO TV connections in the main building.	No answers were given.	Should not be spend on idle activities.
(c) The following observations are made during the inspection of the loss and damage register maintained by the department.		

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| (i) | In the statement of write offs from the books of the financial statements of the year under review, there was a balance carried forward which was not written off in respect of building and vehicle accidents worth Rs.4,127,420 on 08 occasions related to previous years and it had not been charged or deducted from the responsible officers in terms of Financial Regulations 108 and 109. | No answers were given. | Actions should be taken to comply with the financial regulations. |
| (ii) | Actions taken in terms of Financial Regulation 104(4) had not been mentioned in the losses and damages register regarding the accident which occurred on 24 January 2020 to the motor van bearing No. PB 6852 and a balance carried forward which was not written off amounting to Rs.811,600 had been shown under Note II in the statement of write-offs from the books of the financial statements of the year under review. Although it has been almost two years from this accident, the relevant officials have not taken actions to recover the damages from the parties that should be recovered. | No answers were given. | Actions should be taken to comply with the financial regulations. |
| (d) | According to the provisions of the Stamp Duty (Special Provisions) Act No. 12 of 2006, although, stamp duty should be levied on additional liquor licenses and licenses to sell bottle toddy, the Divisional Secretariats had not been act in accordance with the provisions of the said Act during the period 2008-2020. According to a sample audit, a sum of Rs.67,917,000 outstanding stamp duty from 66 divisional secretariat offices belonging to 07 districts of the island should had been collected. | 02 judicial actions have been taken in this regard and charges will be made according to their decisions. | The department should be collected the taxes imposed as per the statutory rules. |

These arrears of stamp duty could not be recovered due to the Department of Inland Revenue has issued instructions

to the District and Divisional Secretaries, apart from the formal legal provisions in relation to the collection of stamp duty on additional liquor licenses imposed by the Stamp Duty Act and the relevant amendments thereto, inadequate follow-up by the department for recovery of outstanding stamp duty etc. It was also observed that the Department of Inland Revenue has not made an accurate assessment of the amount of stamp duty that should be charged to the department on additional liquor licenses.

3.6 Failure to reply Audit Queries

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Out of 66 audit queries issued in relation to the year 2021 and 2022, 10 audit queries had not been answered by 30 June 2022.	Answers have been provided for 41 out of 44 audit queries related to the year 2021 and 15 out of 22 audit queries related to the year 2022 and necessary actions are being made to promptly provide answers to the remaining audit queries.	All audit queries should be answered within the specified time limits.

3.7 Management Weaknesses

The following observations are made.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) A preliminary investigation in respect of only one representation out of 03 public representations had been made against a Deputy Commissioner who was acting as Commissioner (Cover-up) in the Batticaloa Regional Office. Although there was no written evidence that a formal investigation had been conducted in the preliminary investigation regarding the 10 points presented there, it was reported that the	After conducting a preliminary investigation for 02 public representations and giving the report, another public representation was received and preliminary investigation was not conducted and it is not recommended to conduct a disciplinary investigation since there is no evidence to verify the formal factors of the	A formal inspection should be conducted during the preliminary investigation.

report did not require a disciplinary investigation.

anonymous petition submitted with 10 points.

- (b) The vehicle bearing No. JQ 3981 had been repaired on 30 December 2020 at a cost of Rs.1,228,786 and again a repair estimate of Rs.1,533,971 had been obtained for repairs on 25 October 2021. It was observed that an amount of Rs.32,086 had been estimated for six previously repaired elements in the new estimate. It was observed that before carrying out a vehicle repair, appropriate recommendations should be obtained whether a complete repair should be done for it or not and acted upon, but due to failure to do so, the same repair is likely to happen again in a short period of time and financial losses may occur to the government.
- (c) The following observations are made during the inspection of the process carried out by the government institutions regarding Value Added Tax.
- (i) Section 5.4.12 of the Government Procurement Guidelines and Section 26(1) and Section 21(1)(b) of the Value Added Tax Act No. 14 of 2002 had not been followed for the value added tax (VAT) amount paid by the government institutions to the taxpayers. Due to the fact that late payment and non-payment of the VAT which collected by third parties on goods and services from government institutions and should be remitted to the department, it was observed that the parties who collect the tax have been allowed to misuse and the department had not been taken efficient and effective actions for them.
- No answers were given.
- Appropriate recommendations should be obtained before any repairs are undertaken.
- No answers were given.
- Actions should be taken to comply with the relevant section of the Government Procurement Guidelines and the relevant section of the Value Added Tax Act No. 14 of 2002.

- (ii) According to a sample test, Rs.125,517,311 worth of tax money collected as value added tax in the years 2019 and 2020 by 185 active tax payers from 5 government institutions had not been remitted to the department due to not being included in the VAT output schedules submitted by them or not being included output schedules for the relevant period in the RAMIS system. Actions are being taken for calling interviews to conduct further investigations, asking for information in writing, issuing assessments through additional assessments and prompting to enter the records not entered into the RAMIS system. Further investigations should be carried out and necessary actions should be made to correctly calculate and remit the taxes due from the tax payers.
- (iii) Tax money worth Rs.61,009,134 had not been charged to the government due to the fact that 29 tax payers had not paid the correct amount reported to the department through the VAT returns and related work items had not been completed until the audit date. The payments will be recovered promptly and the information will be called for audit. Actions should be taken to collect the tax due from the concerned tax payers.
- (iv) The department had not taken actions to recover VAT worth Rs.4,302,517 paid to 15 inactive tax payers. Information will be called for audit. Actions should be taken to collect the tax due from the concerned tax payers.
- (d) The following observations are made in relation to the management of tax files.
- (i) According to the value added tax reports submitted by the company bearing tax file number 124004071, the amount of value added tax unpaid on the due date was Rs.2,843,923,139 and there was a delay of more than 02 years in issuing the assessment reports and collecting the arrears of tax as per Section 28(1)(b) of the Value Added Tax Act No. 14 of 2002. Furthermore, even though the amount of value added tax due for the first month of the fourth quarter of 2016 had not been paid on the due date, a tax clearance certificate had been issued for the year 2017. That judicial action has been taken for recovery of defaulted value added tax. Acts should be followed and taxes due from the tax payers should be collected promptly.

- (ii) The second assessment of value added tax related to tax file number 770454611 for the period from 01 January 2016 to 31 December 2018 was assessed as Rs.314,278,994 and even though, the taxpayer was informed on 18 May 2020 in accordance with Section 29 of the Value Added Tax Act No. 14 of 2002 in this regard, the related assessment had not been issued by 31 December 2021.
- Called tax payers for interviews on non-agreement for tax amount and correctly calculated the tax liability based on the correct information received.
- Issuance of additional tax assessments and disposal of appeals should be done in accordance with the provisions made by the Acts.
- (iii) According to the unissued assessment from the assessment years 2014/15 to 2018/19 in relation to the tax file TIN No.114105198, the value of income tax, value added tax and economic service charge was Rs. 25,179,056 and the issuance of assessment reports had not been done by 23 March 2021 in this regard and the total value of income tax, nation building tax and economic service fee which was issued for the same period but not collected as at 31 January 2021 was Rs.12,897,624.
- There were delays due to understaffing and work items had not created in the RAMIS system and recoveries will be taken based on the audit inquiry.
- Assessment reports should be issued in due time and action should be taken for recovery.
- (iv) The information regarding taxes payable related to Nation Building Tax and Pay As You Earning/ Advance Personal Income Tax in relation to tax file TIN No.134048336 had not been updated in the RAMIS system. As a result, the tax paid amounting to Rs.91,247,399 and Rs.57,085,410 respectively by the tax payer on 31 December 2020 were in the system as a refund and an arrears tax and penalty balance of Rs. 57,055,732 was also observed related to income tax.
- Due to non-updating of the RAMIS system, showing the balances of taxes due and actions are being taken to write off the penalties.
- RAMIS system should be updated properly and actions should be made to collect taxes and penalties.
- (e) The following observations are made during the inspection of the procedures taken by the department to collect money for the dishonored cheques.

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| (i) | As at 31 December 2020, there were 6,878 outstanding dishonored cheques worth Rs.2,451,465,384 and it was observed that cheques worth Rs.14,731,425 had been continuously accepted from the same taxpayer for the same tax period. It was also observed that although a 10 per cent penalty should be collected while collecting a dishonored cheque, a uniform and efficient system had not been followed. | The value of dishonored cheques is minimal compared to the total revenue of the department and these cheques were paid on self-assessment basis and these cheques were dishonored due to various reasons committed by the taxpayers. | An efficient method should be adopted to collect dishonored cheques. |
| (ii) | The relevant information for 117 cheques worth Rs. 175,287,674 as at 31 December 2020 had not been submitted to the audit by 30 June 2022. | Dishonored cheques comparison is done up-to-date. | The information required for the audit should be submitted promptly. |
| (iii) | Among the cheques submitted with information included in the sample, value added tax, nation building tax, corporate income tax and income tax were respectively paid as Rs.39,787,805 worth of 18 cheques, Rs.13,741,715 worth of 9 cheques, Rs.20,243,241 worth of 5 cheques and Rs.1,042,930 worth of one cheques with a total value of Rs.74,815,691 of 33 dishonored cheques had been totally paid, but they had been still reported as dishonored cheques. | Some cheques have been charged and are being updated. | Dishonored cheques should be accounted accurately and timely. |
| (iv) | Even though, the tax payers had been requested to set off the value of Rs.5,850,000 worth of 5 cheques in relation to value added tax in 2009 and 2011 against the NRN Refund claim but had not done so. Also, it was observed that there was a delay of 07 years to 12 years for sending letters to the tax payers for the recovery of dishonored cheques worth Rs.30,607,247 which included in the sample. | The dishonored cheques have been set off as per the respective requests. | Claims for tax refunds should be dealt promptly. |

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| (v) | From the year 2008 to 31 December 2020, in case of payment of value added tax by cheques, 3798 cheques pertaining to Rs.1,612,674,241 had been dishonored which was 66 per cent of the total value of dishonored cheques. 69 per cent of the cheques value that is Rs.1,113,552,120 had been more than two years. 261 and 93 cheques related to LEGACY and RAMIS system respectively under Value Added Tax with a worth between 1-17 million rupees has been dishonored. It was observed that not taking prompt action on dishonored cheques is allowing government revenue to be misused by third parties. | The current epidemic situation has hindered for taking of relevant actions. | Prompt action should be taken to recover the dishonored cheques. |
| (vi) | A sum of Rs.283,783,861 of 1180 cheques that should have been received to the government as taxes for nation building had been dishonored and it is 12 per cent of the total dishonored cheques value and it was also observed that the tax period had not been correctly identified in relation to 244 cheques worth Rs.36,982,433 by the department. | The correct information will be updated. | Actions should be taken to correctly identify the information related to dishonored cheques. |
| (vii) | The statement made by the department that there was a trend of dishonoring of cheques due to the current epidemic situation is not correct and it was observed during the audit that the lack of proper coordination between the each divisions of the department related to tax collections, set-off and write-off and the failure to give proper guidelines to the respective divisions taking into account the overall efficiency of the collection led to the decline in the progress of collecting dishonored cheques. | Actions are being taken to introduce the online system for charging and to maintain coordination between the departments. | Actions should be taken to correctly identify the information related to dishonored cheques. Proper coordination between the divisions in the departments should be maintained and proper instructions should be given. |

- (e) The following observations are made during the audit of tax refund performance of the department.
- (i) In the case of tax refund exceeding Rs.5 million, even though it is necessary to get the recommendation from the committee which operating for that purpose, the recommendation of the said committee had not been obtained in the tax refund amounting to Rs.111,408,172 in relation to two tax payers.
- The recommendations of the Committee will be taken in issuing refunds. Relevant recommendations should be obtained.
- (ii) The income tax refund had not been done efficiently and uniformly due to fact that it has taken between 5 and 10 years to refund VAT taxes of Rs.205,984,399 and income taxes of Rs.6,944,372 for 85 taxpayers and between 10 to 15 years to refund of VAT taxes of Rs.103,563,191 and income taxes of Rs.4,794,837 for 22 taxpayers out of the sample audited taxpayers.
- The refunds can be issued promptly if taxpayers promptly and properly submit the required information. The tax refund process should be efficient.
- (iii) In relation to tax file number 114370797, even though VAT tax refunds of Rs.285,849,378 had been made in July 2019, VAT amount of Rs.497,431,385 remained to be collected in the RAMIS system as at that date. Furthermore, the amount of VAT to be collected on 23 December 2021 was Rs.421,470,958 and necessary actions had not been taken to collect those taxes.
- The instructions have been received to separately make the arrears related to RAMIS system and VAT/IT refunds related to Legacy system. Necessary actions should be taken to recover the arrears.
- (iv) According to the information received on 15 October 2021 under number EAQ/INFO/2021/75 regarding the refund of income tax for the assessment year 2018/19, there was an outstanding tax balance of Rs.12,539,843,433 due to the Inland Revenue Department on 30 June 2021 from 507 taxpayers who entitled to tax refund.
- The arrears of tax should be entered in the tax arrears register until said refund is completed and setoff against the arrears of tax. A system should be implemented to clear the outstanding taxes and pay the balance in cash only when paying tax refunds.

(v) According to the tax refund guidelines dated 28 January 2010, the tax refund files of tax payers bearing TIN No.100909189 and No.409383890 had not been included the arrears tax clearance certificate and arrears tax details summons letters. No answers were given. The relevant guidelines should be followed.

(f) In relation to "Income Tax Exempt Entities" as per Section 07 of Chapter III of the Inland Revenue Act No. 10 of 2006 and "Exempt Amounts" in the Third Schedule of the New Inland Revenue Act No. 24 of 2017, it was observed that 17 organizations had been obtained registration for income tax according to the information of the RAMIS system of the Inland Revenue Department while testing whether the entities that are liable to pay tax from 1 April 2018 have already been registered in the tax system. But no any income tax returns had been submitted till the date of audit, 31 December 2021. It was also observed that most of those entities have not paid any income tax for more than ten years on profits or income from dividends and interest and even though 19 entities which are liable to pay income tax from 01 April 2018 but have not been registered for income tax till 31 December 2021, the audit date. The files of 21 entities have been opened and inquiries have been made for the remaining 15 entities but no answers have been received yet. In accordance with the provisions of the Act, files for income tax should be opened as well as tax returns should be brought promptly for all the mentioned entities.

4. Sustainable Development

4.1 Progress towards achieving Sustainable Development Goals

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
According to Section 12(1) of the Sri Lanka Sustainable Development Act dated 03 October 2017, every government institutions should be prepared sustainable development strategies related to its scope according to the national policy and strategies on sustainable	The Sustainable Development Goals have been identified and that performance targets are being developed to measure the achievement of those	The provisions of the Sustainable Development Act should be followed.

development. However, although the Inland Revenue Department has identified the related sustainable development objectives in relation to the Sustainable Development Agenda-2030 in the year 2021, it was observed that the milestones to reach the goals related to the identified objectives as well as the indicators for measuring the progress, the identification of interested parties related to the implementation of the objectives and related activities had not been carried out in the year 2021. Furthermore, it was observed that the identified sustainable development objectives had not been included in the 2021 Annual Action Plan.

5. Human Resource Management

5.1 Assigned staff and actual staff

The following observations are made.

The following observations are made regarding number of employees as at 31 December 2021 in the Inland Revenue Department.

Type of employee	Approved number of employees	Actual number of employees	Number of vacancies
Senior level	1,257	1,021	236
Tertiary level	60	32	28
Secondary level	1,055	986	69
Primary level	496	442	54
Total	<u>2,868</u>	<u>2,481</u>	<u>387</u>

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The total number of vacancies in the year 2020 was 320, and it has increased to 387 vacancies in the year 2021. These 387 vacancies had been remained unfilled at the end of the year under review, which was 14 per cent of the approved number of employees.	Pending approval of Public Service Commission, informed by the Director General of Combined Services to provide officers through recruitment or transfer requests, informed by the Secretary to the Ministry of Finance that the recruitments are temporarily suspended till further notice etc. have caused.	Staff vacancies for essential posts should be filled as approved.

- (b) Number of 236 senior level posts had been vacant which included 19 senior commissioner posts and 45 commissioner posts. It was observed that this vacancy is covered by filling the existing posts of Commissioner and it is 57 per cent of the approved posts (Senior Commissioner and Commissioner). It was observed that this situation may have an impact on the efficient and timely completion of the work items of the new income tax administration computer system.
- The permanent appointments to the respective posts cannot be made until the formal approval of the Public Service Commission received.
- Positions covered by acting for essential duties should be completed.
- (c) All the 28 vacant posts at the tertiary level are IT Officers and this vacancy remained the same in the year 2020. It was observed that due to the fact that the officials have not been recruited so far, the new Income Tax Administration Computer System (RAMIS) had been directly affected by the delay in handing over its maintenance work to the department.
- The Directorate General of Recruitment should be Combined Services had done for essential posts. informed to provide the officers through recruitment or transfer requests.