

## **Inland Revenue Incentive Fund - 2021**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Inland Revenue Incentive Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the income and expenditure, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

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

## 1.4 Auditor's Responsibility 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 report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of

my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of

information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and whether the resources of the fund had been procured and utilized economically,

## 1.5 Investment Management

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Audit Observation	Management Comment	Recommendation
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The accumulative balance of housing loan fund totaled Rs.38,977,949 as at 31 December 2021 and from May 2011 until the end of the year under review no loan had been made to the officers from this housing fund hence, actions had been taken to achieve the objectives of establishing this loan fund.	Necessary actions can be taken to achieve the objectives of establishing the loan fund after the full recovery of the loan amount.	Necessary actions should be taken to achieve the objectives of establishing the loan fund.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result for the year under review amounted to a surplus of Rs.17,670,638 as compared with the corresponding surplus in the preceding year amounted to Rs.51,426,693. Therefore, a deterioration amounting to Rs. 33,756,055 of the financial result was observed. The main reason for the deterioration are increase in expenditure by Rs.23,532,186 and decrease in provision and investment income by Rs.10,223,868 in the year under review.

## 3. Accountability and Good Governance

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### 3.1 Tabling of Annual Performance Report in Parliament

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Audit Observation	Management Comment	Recommendation
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According to the Public Finance Circular No. 01/2020 dated 28 August 2020, a performance report with certified financial statements of the fund should be submitted to the Auditor General within 02 months after the end of the accounting year, but it had not been done.	The performance report has not been prepared as per the circular and only the accounting reports have been prepared, since it is a special fund established for the welfare of officers in accordance with a scheme approved by the Minister.	A performance report should be prepared as per the circular.

## 3.2 Budgetary Control

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	<b>Audit Observation</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a)	According to the Public Finance Circular No. 01/2020 dated 28 August 2020, a budget document should be prepared and approved by the minister in charge, but such a budget document had not been prepared and approved by the minister in charge.	That a budget document has been prepared from the year 2022 and actions have been made to obtain the approval of the Ministry of Finance.	A budget should be prepared as per the circular.
(b)	As per financial regulation 50(11), the accounting officer is required to ensure that the annual expenditure estimate is prepared as fully and accurately as possible, but the expenditure estimate for the year under review was Rs.1,242,000,000 but the actual expenditure was Rs.767,439,708 therefore, a variation of 38 per cent had been observed.	While getting approval from Ministry, the approval is given only for a part of the amount and not for the entire amount, and therefore a difference can be seen between the actual cost and the estimated cost.	The annual expenditure estimate should be prepared as fully and accurately as possible.