

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

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head 246 - Department of Inland Revenue for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2023 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 05 June 2023 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 2022, 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.

<b>Reference to paragraphs of the report relating to the previous year</b>	<b>Recommendations that was not implemented</b>	<b>Reference to paragraphs of this report</b>
1.6.1.1 (a)	Differences between treasury information and departmental books should be accurately identified and adjusted.	1.6.1(I)(i)
1.6.1.1(a)	Differences between financial statements and control accounts should be accurately identified and adjusted.	1.6.1(I)(ii)
1.6.1.1(a)	Treasury books and departmental books should be properly reconciled with the financial statements.	1.6.1(I)(iii)
1.6.1.3	The balance of the suspense account should be correctly identified and the necessary adjustments should be made and settled.	1.6.1(I)(iv)
2.1.1 (c)	The cause for the difference should be identified and rectified.	2.1.1 (xiii)

## **1.6 Comments on the Financial Regulations**

### **1.6.1 Accounting Deficiencies**

#### **(a) Receipts of Income**

The following deficiencies were observed when accounting the revenue receipts by the Department.

	<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<b>(I) Non reconciliation</b>	The following differences were observed under the Income Symbol bearing Non-Collective Income Tax Symbol No. 10.04.02.99, which acts as a revenue symbol as well as a control account.		

(i) According to the information of the General Treasury, non-reconciliation of Rs.74,895,115 was observed between the credits made to the said control account during the year under review and the income according to the control account in the departmental income classification.	That an amount of Rs.67,873,346 of the total non-reconciliation value has been recorded in the control account in the months of March and May and a journal entry was made to transfer Rs.7,021,768 to the control account.	Control account should be reconciled correctly.
(ii) A non-reconciliation of Rs.31,271,937 was observed between the income as per control account and the other income control account in the financial statements of the year under review in the income classification of the Departmental.	That the value has been made up of the unclassified balances of the value added tax control account and other control account.	Control account should be reconciled correctly.
(iii) A non-reconciliation of Rs. 42,915,041 was observed between the balance as per of the treasury books under other revenue symbol bearing No. 10.04.02.99 and the trial balance of the Department and the balance of the financial statements for the year under review.	That the reasons for the said difference have been clarified by the answers to the aforementioned queries.	Income classifications should be correctly reconciled and subsequently the financial statements should be prepared.
(iv) It was observed that since there had been a suspense balance amounting to Rs.5.6 billion in the departmental RAMIS computer system outstanding for more than 07 years as at 31 December 2022, the balance of the tax arrears has been over calculated by that amount.	As the Department does not receive enough information, the payment cannot be settled until the taxpayer makes a request.	That the necessary steps should be taken to correctly identify and settle the suspense balance.
(v) It was observed that there had been weaknesses in the internal control regarding revenue accounting as timely measures had not been taken to rectify the differences identified by reconciling the amounts credited to the Treasury through the bank accounts maintained for the collection of revenue with the bank account statements.	Reconciliations are made monthly and any errors identified from that will be rectified.	Statements of the bank accounts maintained for the collection of revenue should be correctly reconciled.

## **(II) Accuracy in reporting monthly revenue**

Action had not been taken in terms of the provisions of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015 in recording all the other income other than Value Added Tax and Goods and Services Tax collected by the Bank and remitted to the General Treasury in the Other Tax Revenue Control Account of the General Treasury and in classifying according to the revenue code and transferring to the correct revenue code through the monthly accounts and accordingly, the Department had not correctly made those classifications in relation to 04 months of the year under review.

That answers should be obtained from the Revenue Monitoring Division.

Income reports should be properly prepared as per the Circulars.

## **(III) Income classification errors**

The amounts credited to the General Treasury control account in relation to the value added tax revenue is accounted to the three revenue codes of financial services, other services and products and value added tax through monthly summaries. A sum of Rs. 7,946,219 saved in the control account at the end of the year under review had been transferred to other service revenue code using transfer slips without identifying the amount according to the revenue codes. As a result, the accuracy of the net revenue of all the three revenue codes of value added tax, financial services, other services and products was not confirmed in the audit.

That answers should be obtained from the Revenue Monitoring Division.

Revenue codes should be correctly identified and the revenue should be classified.

**(b) Documentary Evidences not made available for Audit**

Audit evidence had not been submitted in respect of the following transactions.

	<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<b>(I)</b>	Answers had not been provided 08 audit queries submitted to the Department in the year under review had not been even by 31 May 2023 and the value of the transactions that can be computed related to those queries had been Rs.26,243,200,680.	6 audit queries were issued in February 2023 and subsequent to that and as a whole, there has been no delay in answering the audit queries.	Action should be taken in terms of FR 155.
<b>(II)</b>	Due to the fact that the audit team had not been given the permission to access the Appeal and Objection sub-modules operating in the RAMIS system, the opportunity to get the updated information from the system related to the appeal reports generated from the Report module of the RAMIS system was lost. Due to this, the audit could not examine the tax appeals and inquiries of contentious nature as at 31 December 2022.	Answers have not been provided.	That the Auditor General should be assisted in terms of Section 42 of the National Audit Act.
<b>(III)</b>	The audit could not check the accuracy of the payments made apart from the basic identification in that phase as a copy of the document containing the additional requirements to be fulfilled apart from the basic identification related to the phase 2.0 of the RAMIS system and the progress of those requirements had not been reported to the audit.	Answers have not been provided.	That the Auditor General should be assisted in terms of Section 42 of the National Audit Act.

## **2. Financial review**

### **2.1 Revenue Management**

#### **2.1.1 Management of Arrears of Revenue**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>In terms of FR 128 (2) (c), the Commissioner General of Inland Revenue shall submit half-yearly tax arrears reports to the Auditor General by July 31 and January 31 of the following fiscal year respectively. The following are the facts observed during the examination of the returns of arrears of tax revenue submitted with two months delay for the first half year and one month delay for the second half year of the year under review.</p>		
<p>(i) The total arrears of taxes, penalties and interest income to be collected by the Department as at 31 December of the year under review were classified as recoverable and recovery had been suspended temporarily on the basis of the ability to recover and accordingly, more than 75 percent of the total arrears of taxes, fines and the interest income had been recognized as temporarily suspended taxes, fines and interest.</p>	<p>That the report is prepared based on the information obtained from various Divisions.</p>	<p>Reports are required to be submitted on due dates as per the Financial Regulations.</p>
<p>(ii) A sum of Rs.562,405,600,725, i.e. 84 percent of the total arrears of tax, fines and interest value as at 31 December 2022, had been identified as temporarily suspended tax, fines and interest in relation to the RAMIS computer system, and a sum of Rs.109,368,553,575, i.e. 16 percent had been identified as recoverable tax and fines.</p>	<p>That the arrears of taxes have been suspended due to appeals, objections and imitation of legal proceedings.</p>	<p>Steps should be taken to collect the arrears of taxes and balances of fines promptly.</p>
<p>(iii) According to the Legacy computer system, Rs. 178,511,486,652 i.e. 76 percent of the value of the total arrears of taxes, fines and interest as at 31 December 2022 had been identified as temporary suspended taxes, fines and interest.</p>	<p>-Do-</p>	<p>-Do-</p>

Accordingly, it was observed in the audit that a significant high value of the total arrears of taxes, fines and interest income had been withdrawn as temporarily suspended taxes, fines and interest, and thereby, it had created a condition of not reaching the specific performance related to the established functions of the Department.

- (iv) It was observed that 34 percent i.e., Rs.37,260,349,009 and 92 percent i.e., Rs.49,541,396,875 of the recoverable arrears of taxes, fines and interest existed in relation to RAMIS and Legacy computer systems as at 31 December 2022, had been outstanding balances over a period of 03 years. Answers were not provided. -Do-
- (v) It was observed that 34 percent of the arrears of tax balances that have been temporarily suspended as at that day, ie, Rs. 190,228,513,511 and 96 percent ie, Rs.170,498,900,008 had been the balances outstanding for over 03 years in relation to the RAMIS and Legacy computer systems respectively. Answers were not provided. -Do-
- Accordingly, it was observed that the process of collection of tax arrears, which had been identified as tax values that could be recovered actually by the Department as well as the balances of arrears of tax that had been temporarily suspended, had not been implemented with sufficient efficiency.
- (vi) It was observed that 70 percent of the value of total recoverable arrears tax revenue value, ie Rs.114,293,744,157 had been value added tax in the analysis of arrears of tax, fines and interest income carried out by types of taxes, and necessary measures had not been implemented sufficiently by the Department to timely remit the tax revenue collected by third parties. That steps have now been taken to collect arrears of tax to be recovered further. -Do-

(vii)	The balances of arrears of taxes and fines valued at Rs. 7,229,330,585 in relation to types of taxes abolished and that had been remaining for a number of years under the legacy computer system and were further observed and it was observed that arrears of taxes applicable as per Sections 14 and 15 of Part II of the Finance Act No. 18 of 2021 had not been identified and written off efficiently.	The writing-off of arrears of taxes related to the abolished taxes must be done in accordance with Section 11 of Part II of the Finance Act No. 18 of 2021 and that balances that do not comply with those conditions cannot be written off.	-Do-
(viii)	Special provisions had been made for the recovery of arrears by establishing a separate Unit (DTRU) under a Deputy Commissioner General within the Department for the recovery of default taxes as at 31 December 2009 under the Default Taxes (Special Provisions) Act, No. 16 of 2010, as amended by Act No. 14 of 2014. A sum of Rs. 48,812,991,690 had been transferred to that Unit as arrears of tax and fines on 31 December 2015 and only a sum of Rs. 22,120,036,394 i.e. 45 percent had been settled even by 31 December 2022 although 12 years had passed since the establishment of the Unit.	The tax collection was in a very uncertain situation as they had been very old arrears files prevailing from the decades of 80's and 90's and as there was no relevant information. That the arrears of tax and fines remaining as at 30.04.2023 have been reduced to Rs.25,639,914,740.	-Do-
(ix)	It was observed that the settlement of arrears of tax in this Unit in the years 2019, 2020, 2021 and 2022 had been Rs.2,583,148,892 (25 percent) and the settlement from other sources had been Rs. 7,679,715,027 (75 percent) according to the audit test checks carried out on the information presented.	That the observations are correct.	Priority should be given to settle the tax arrears in cash.

- (x) The legal proceedings taken by the Department (filed in the periods of 2007 - 2018 and 2019 - 2022) in relation to the periods controlled under Legacy computer systems totally valued at Rs.57,596,870,403 comprised of 188 legal proceedings worth Rs.26,150,871,589 and 183 legal proceedings worth Rs.31,445,998,814 respectively on the taxes and fines of contentious nature had not been resolved even by the end of the year under review. It was observed that there had been internal problems such as the existence of employee vacancies in the Legal Division of the Department and the relevant Divisions had not been worked in coordination with the Attorney General's Department.
- The Legal Division of Action should be the Department has always provided active support to the Attorney General's Department regarding those cases, and the declaration of the decisions of the cases pending in the courts is a matter outside the administration of the Inland Revenue Department.
- (xi) It was also observed that 4,831 cheques worth Rs. 2,488,003,615 issued since 2004 related to Legacy and RAMIS systems had been dishonoured by 30 June 2022, and the amount of dishonoured cheques remained unsettled for a period of 03-10 years included therein had been 66 percent of the total number of dishonoured cheques. It was observed that lack of proper and adequate instructions to avoid this condition, continuously occurring during the collection of tax revenue and on clearing of cheques had been the reason for this bad situation.
- There had been 3943 cheques worth Rs. 2,044,715,782 to be cleared as at 31 December 2022 and the possibility of stopping payments to the Treasury in the future before the cheques are cleared is being discussed.
- (xii) The value of 3,471 dishonoured cheques in relation to taxes paid by cheques to the Department after collecting as value added tax from third parties by the tax payers had been Rs.1,980,596,605 and it had been 80 percent of the total value of dishonoured cheques. Thus, it was observed during the audit that not taking prompt action regarding the cheques that had been dishonoured in the payment of the revenue collected as indirect taxes by the third parties as a way of allowing the misuse of the revenue of the Government.
- Action has been taken to settle 2853 dishonoured cheques worth Rs. 1,743,973,763, out of the value related to the Value Added Tax as at 30.06.2022.
- Action should be taken promptly to settle dishonoured cheques.

- (xiii) A sum of Rs. 2,667,312,580 had been collected at the end of the year under review under 07 revenue codes, for which the Department had not estimated the revenue, and the revenue collected in the year under review in relation to the taxes or fees that have already been abolished and included therein can be considered as tax amounts collected from the arrears related to the previous years. Even though the collection of revenue related to the aforesaid taxes according to the statement of revenue for the year under review should be equal to the collections of the related arrears of revenue included in the statement of arrears of revenue, a difference of Rs.259,082,257 was observed.
- (xiv) According to paragraph 8 of the Fiscal Policy Circular No. 01/2015 dated 20 July 2015, if a revenue collection of taxes or charges which are not currently in force is reported, it should be forwarded to the Auditor General with a copy to the Director General of the Department of Fiscal Policy using Form No. 03 within the ensuing month after the end of each accounting year. Nevertheless, action had not been taken accordingly in relation to the collection of the aforesaid collection of revenue.
- (xv) According to the Fiscal Policy Circular No. 01/2015 (XI) dated 05 January 2018, all the counting activities of revenue for Remittance Charges Revenue Heads had been assigned to the Inland Revenue Department and although the Department had estimated revenue for the remittance charges amounting to Rs. 1 million each for the year under review and the previous year, the Department had failed to collect any revenue.
- (xvi) According to the financial statements of the year under review, it was observed the net value of the tax collection related to 04
- There may be errors in the statement of revenue arrears and action has been taken to minimize the errors. Steps should be taken to collect all the balances of tax arrears and fines promptly.
- Classification and provision of all the receipts under revenue codes are carried out through the Monthly Classification Report (A-75) and there is the possibility of identifying the collection of revenue related to taxes or charges, which are not in force currently.
- Remittance charges are levied on the remittances made from foreign countries and it is beyond the control of the Department. Action should be taken to collect the estimated revenue as per the Circulars.
- The reasons for declining revenue in relation to each revenue code had been Annual revenue targets should be correctly set and

	revenue codes had declined in a range from 6 per cent to 48 per cent compared to the preceding year and its overall impact was rs. 7,339,374,701	mentioned.	steps should be taken to achieve those targets.
(xvii)	During the course of audit test check carried out based on the departmental computer system regarding the additional tax collection related to the year 2019 stated in the previous tax returns, although it was reported that the additional tax of Rs. 123,891,664 had been levied related to income tax and the value added tax for the year 2019 in 08 tax files mentioned in the prior tax returns, it was observed according to the computer system as of 20 September 2022 that the additional tax returns had not been issued for the aforementioned period.	Replies have been given only for the TIN numbers.	It is the responsibility of the management to confirm the accuracy of previous tax returns.
(xviii)	It was observed that the taxable balance of the withholding tax pertaining to 24 tax payers whose individual balances were more than Rs. 10,000,000 included in the half yearly tax returns on outstanding tax as at 31 December 2022 submitted to the Auditor General in terms of Section 128 (2) of the Financial Regulations had been overstated by Rs. 985,666,458 according to the RAMIS System.	The overall tax returns on outstanding tax of the Department is prepared according to the data provided after certifying their accuracy by the regional offices, city offices and other divisions, and it is practically impossible to verify the accuracy of each report by examining them in terms of file numbers.	It is the responsibility of the Management to correctly prepare the tax returns on outstanding tax.
(xix)	The outstanding tax balances related to 31 tax payers of the income tax incorporated in the outstanding tax return as at 31 December 2022 had been overstated by Rs. 411,508,750 according to the RAMIS system, and the applicable periods for the outstanding tax of Rs. 594,909,174 as at 30 June 2022 had not been correctly identified.	-Do-	It is the responsibility of the Management to correctly prepare the tax returns on outstanding tax.

- (xx) Since the assessment reports are not issued through the system from the years 2018/2019, the outstanding tax returns up to 2020/2021 are not correctly generated through the system. Further, due to non-availability of the details on the individual balance movements related to the outstanding tax in the system, those matters had to be manually recorded in the outstanding tax returns.
- Accordingly, the accuracy of the outstanding tax return prepared by the Inland Revenue Department was not confirmed to the audit from the RAMIS system.
- Due to the introduction of new Acts on policy decisions of the Government and the delays caused in obtaining financial facilities to modernize the system, these activities could not be carried out through the system. Hence, the outstanding tax return of the Department cannot be obtained from the data on the outstanding tax in the RAMIS system. Nevertheless, that data
- The management should ensure that the system generates tax related reports accurately.

## 2.2 Incurring Commitments and Liabilities

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
<p>According to the Financial Statements of the year 2022, the understatement of the commitments and liabilities of Rs. 2,130,464 relating to 02 Objects and overstatement of Rs. 3,402,666 relating to another Object as at 31 December 2022 in the statement of commitments and liabilities, and the commitments arisen due to entering into long-term agreements worth Rs. 194,140,500 by the Department had not been disclosed by the accounts of the year under review. Therefore, the accuracy of the statement of commitments and liabilities in the financial statements as at 31 December 2022 was problematic in the audit.</p>	<p>The fact that the amount of Rs. 1,576,000 only had been understated in the statement of liabilities . There were provisions saved under the Object 1403 as at 31.12.2022 for that purpose.</p>	<p>The management should be responsible for the preparation of the statement of commitments and liabilities correctly.</p>

## **2.3 Irregular Transactions**

### **(a) Unapproved Payments**

The following payments had been made without proper approval

	<b>Audit Observation</b>	<b>Comment of the Recommendation Accounting Officer</b>	
(i)	In terms of Paragraph 1.1 of the Management Services Circular No.01/2019, the approval of the Department of Management Services should have been obtained to make payments to the staff of the RAMIS project. However, due to the grant of that approval only up to 30 November 2019, a sum of Rs. 91,550,864 had been paid from December 2019 to December 2022 without an approval.	Not replied.	A formal approval should be obtained for all payments and the relevant officers should be surcharged for the payments made without such approval.
(ii)	In the payment of allowances under the RAMIS project for the year 2022, four officers who had got their leave approved for permanent duties were paid Rs.157,623 for the relevant period of leave and two officers who had left the project were paid Rs.23,848 after their departure from the project. It was observed that the above weaknesses had been arisen due to not maintaining a proper internal control system to confirm that the duties related to the payment of allowances have been fulfilled.	Not replied.	The management should ensure the maintenance of a sound internal control system that assures the accuracy of all payments.

## **2.4 Handling Bank Accounts**

<b>Audit Observation</b>	<b>Comment of the Recommendation Accounting Officer</b>	
<p>There were observed cases where 48 cheques worth Rs. 22,291,279 received by 04 Divisional Secretariats audited by the Internal Audit Unit of the Inland Revenue Department had been retained without being banked on the due date and a proper supervision mechanism should have been put in place to avoid that situation.</p>	<p>The reasons such as outstanding fines were to be written off according to the Inland Revenue (Amendment) Act, No.10 of 2021 and Finance Act No. 18 of 2021 provision of relief due to the Covid situation, taxpayers' request for providing relief to write off of tax, issuance of circulars and guidelines by the Commissioner General related to write off of tax based on the legal matters, led to this situation.</p>	<p>Action should be taken to bank the money collected by cheques in updated manner through proper supervision mechanism.</p>

### **3. Operating Review**

#### **3.1 Delays in the Execution of Projects**

The following observations are made.

	<b>Audit Observation</b>	<b>Comment of the Recommendation Accounting Officer</b>
(a)	<p>With a view to enhancing the efficiency of the Inland Revenue Department, the Department had taken measures to implement the Revenue Administration Management Information System (RAMIS) and it was reported to the audit that a total cost of Rs.7,153,012,199 had been incurred from 2014 to 2022 for that purpose. For the second phase of the RAMIS 1.0, an agreement had been signed with a Singapore company for 35,006,646 Singapore Dollars (for Rs.04 billion as per the existing foreign exchange rate) and after completing the works of</p>	

the system, the modules had been implemented from 01 January 2016. The following matters were observed regarding the maintenance of the aforementioned system.

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|--|--------------|---|
| (i) The Department had incurred a cost of 5,880,313 Singapore Dollars (Rs.725,882,619) for the system maintenance over 04 years from January 2016 to October 2020. Although the agreement was due to end in October 2020, the Department could not accept the system due to not recruiting necessary employees and not carrying out software and hardware updates. As a result, while extending the contract agreement by 03 months up to 31 January 2021, 309,824 Singapore Dollars (Rs.46,826,053) had been paid. Subsequently, the maintenance service contract had been awarded for 46,826,053 Singapore Dollars (approximately Rs.3.1 billion) to a sub-contractor of the Singapore Assistance Agency for a period of 03 years from February 2021 to 31 January 2024. Although the maintenance should be take over in phases, as a result of delay in the recruitment of staff, the taking over in the second phase had to be extended by an year up to 2023 and it had been agreed to take over the phases 01,02,03 and 04 in February 2021, January 2022, January 2023 and January 2024, respectively | Not replied. | Prompt action should be taken to take over the maintenance of the RAMIS system by the Department. |
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according to the agreements. It was observed that, if the Department further fails to take over the maintenance on the due date, an additional cost of 89,438 Singapore Dollar will be incurred per month for the contracted second year of the phase 02 and 191,498 Singapore Dollar per month for the contracted third year due to not taking over the phase 03.

(ii) With the new Inland Revenue Act No.24 of 2017 coming into effect, most of the methodologies and legal conditions related to the tax administration have changed and the activities to be carried out for making amendments in respect of new Tax Act had been handed over to a Singapore company under 02 phases. Accordingly, agreements had been reached at Singapore Dollar 1,760,000 (approximately Rs.265 billion) for the 2.0 phase A and 15,534,364 Singapore Dollar (approximately Rs.2.3 billion) for 2.0 Phase B of the RAMIS system. The following matters were observed in this connection.

- It was observed during the audit test check that certain changes are made in the RAMIS system to solve the issues arose during its operations and 1,333 Singapore Dollars or approximately Rs.185,017 is required to spend for a man-day to make such

Not replied

Action should be taken to ensure incurring a minimum cost by the government.

changes. Accordingly, apart from the amount paid to that company for the development of modules, a sum of Rs.71,723,662 had been paid from time to time for the changes so effected in the system. Furthermore, it was observed that during the development of the system/ necessity analysis of the system, attention had not been drawn on the possible requirements for including the constant tax-related changes in the system that are proposed in the implementation of the system, and it had resulted in this additional expenses.

- Since the module related to issuing assessment reports had not been developed under RAMIS 2.0, it was observed that the income tax assessment reports relating to the 2018/19 assessment year could not be issued through the system subject to the deadline of 31 May 2022, and that duties could not be assigned to the officers from the 2018/19 assessment year onwards due to not developing the system.

Not replied

The development of RAMIS 2.0 module should be completed expeditiously.

**(b) Staff Training and Recruitments for RAMIS System**

- (i) According to Section 4.2.3 of the Schedule of Requirements prepared for

Not replied..

Assistance should be extended to the Auditor General in accordance

			the RAMIS project, the matters had been indicated regarding the preparation of a training plan and the courses to be conducted in accordance therewith. However, information was not submitted to the audit that the Department had complied with the above requirement, and to examine the progress of the activities being carried out.	with Section 42 of the National Audit Act.
(ii)	According to the approved cadre of the Department, the shortage of staff to cover the duties related to the scope of this project is 40 and it was observed that the failure to take action to fill those vacancies had contributed to causing delay for taking over the project by the Inland Revenue Department, resulting in an additional expenditure.	Not replied		It is the responsibility of the Management to operate the project in a manner ensuring a minimum cost to the government recruiting approved cadre.
(c)	Expenditure for the cadre Deployed for the Establishment of the RAMIS Project	Not replied.	According to the audit test check on the payment for the year 2021 of the project office maintained for the establishment of RAMIS system, approximately Rs.2,557,512 had been paid to 71 officers per month, and payment of Rs. 44,114,059 had been paid for the staff of the RAMIS project relating to the period from October 2020 to October 2021. Furthermore, this project staff had made their service contribution to the project while being engaged in	In the payment of a remuneration, it is the responsibility of the management to ensure that the relevant service is provided outside the normal duty hours.

the duties of the Inland Revenue Department. Accordingly, it was observed that their permanent duties might have been interrupted for nearly a period of 10 years from 2014 to 2022 and the overall efficiency of the Inland Revenue Department may have been adversely affected due to the Department's failure to take over the project expeditiously.

**(d) The Progress of Connecting 28 Institutions to the RAMIS System**

Under the progress of connecting 28 institutions to the RAMIS system, 06 institutions have been connected to the system at present and it was observed that the remaining institutions have not been connected so far due to various issues.

Not replied

Institutions should be connected to the RAMIS system expeditiously.

### 3.2 Uneconomic Transactions

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In an era where the overall process related to the tax administration is being implemented via online method through the computer system, a stock of instruction sheets and sets of formats, printed by the Department overestimating the requirement, remained unused in the stores of the Department. As a result, the loss incurred by the Government was observed to be Rs.1,777,723.	Not replied	It is the responsibility of the management to plan expenditure ensuring a minimum cost to the Government.

### **3.3 Management Weaknesses**

The following observations are made.

- |                   |   |  |  |
|-------------------|---|--|--|
| <p><b>(a)</b></p> | <p>In terms of Chapter xxiv of the Establishments Code, Financial Regulation 113 (6) (b), and Public Finance Circular No.01/2020 dated 02 September 2020, no action had been taken to settle the loan balance of Rs.1,456,174 related to 09 officers who had retired and vacated the service.</p>   | <p>The loan balances of the related officers had been shown by an annexure.</p>  | <p>Action should be taken to settle the relevant loan balances in terms of Establishments Code, Financial Regulations and the circulars.</p> |
| <p><b>(b)</b></p> | <p><b>(I) Annual tax related to the assessment years for the Casino businesses</b></p>  |  |  |
|                   | <p>(i) According to Section 02 of the Betting and Gaming Levy Act, No.40 of 1988 and the Betting and Gaming Levy (Amendment) Act No.14 of 2015, the persons who is running a casino business should pay an annual tax of Rs.200 million, whereas annual tax of Rs.440,980,000 relating to two casino businesses had not been paid.</p>  | <p>One of the above businesses had not engaged in business activities during the related period and action is being taken to recover the Rs. 300 million further remained recoverable from the other business.</p> | <p>Action should be taken to recover the taxes due from the relevant tax payers.</p>   |
|                   | <p>(ii) According to the Betting and Gaming Levy (Amendment) Act No. 7 of 2001, a penalty equivalent to 33 1/3 per cent should be imposed on a tax paid after the specified date. Nevertheless, the Department had not taken action to recover the penalties totalling Rs. 1,558,295,125 with respect to annual payment of taxes on Casino gaming not made on time for each year.</p> | <p>Recovery of penalties should be done in accordance with Inland Revenue Act No. 10 of 2006.</p>  | <p>Taxes receivable from the taxpayers should be recovered without delay.</p>  |

**(ii.) Levying taxes on the gross total of Casino gaming.**

- (i.) As the Commissioner of Inland Revenue had obtained only the reports of gross receipts for the quarter through department formats relating to betting and gaming, and due to his failure in establishing an internal system of control to ensure the accuracy of such receipts, it was not observed in audit that the levy on gross total relating to Casino businesses was recovered correctly.
- (ii.) According to Betting and Gaming Levy (Amendment) Act No. 19 of 2013 and the amendments thereon, the report on gross total should be furnished before 20<sup>th</sup> day of the month after end of the quarter and the payment should be made within the first week thereafter. In case of failure to furnish the reports, a fine not exceeding Rs. 50,000 should be imposed, and when failed to make the payment on time, a penalty should be imposed in terms of the said Act and the Inland Revenue Act No. 24 of 2017. As for instances in which reports on gross total relating to the years of assessment 2014/2015 up to the present, had not been furnished to the Department of Inland Revenue on time, the Department had not taken action to recover the outstanding fines and interest of Rs. 342,281,284 receivable for defaulting on the payment of tax on time.
- Action has been taken to obtain reports under a new format. A suitable system of internal control should be established enabling the separate identification of gross receipts and turnover relating to the taxpayer.
- Gross reports had not been received due to the spread of pandemic during 2019-2021, and no action had been taken to impose penalties thereon. The Acts should be followed, and action should be taken for prompt recovery of funds receivable from taxpayers.

- (iii.) Recovery of Casino Entrance Levy.
- According to Section 02 of the Betting and Gaming Levy(Amendment) Act, No. 14 of 2015, every person who carries on the business of gaming in Sri Lanka for any year commencing on or after January 1, 2015, shall collect a Levy of United States Dollars one hundred or its equivalent in any other convertible foreign currency or in Sri Lanka currency from any person who enters such place of business of gaming. Although this levy had been exempted for the period 2016-2019, it was proposed that an amount of US \$ 50 be collected from a Sri Lankan or a resident of Sri Lanka entering a place of business of gaming with effect from 2019. However, the Department had not taken action for recovery of this levy.
- Action had been taken to recover the entrance levy from February 2023.
- The Acts should be followed, and action should be taken for expeditious recovery of taxes receivable from the taxpayers.
- (iv.) Recovery of Casino Levy.
- Although those carrying on the business of Casino had paid in installments the Casino levy imposed by the Financial Act No. 10 of 2015, outstanding levy and fines totalling Rs. 2,980,000,000 remained further recoverable from 02 Casino businesses.
- Legal action is being taken for recovery of the outstanding tax.
- The Acts should be followed, and action should be taken for expeditious recovery of taxes receivable from the taxpayers.
- (v.) As information about levies on Casino gaming has not been maintained in the RAMIS software of the Department of Inland Revenue, it was not
- There is only a limited number of taxpayers for the said gaming business, and due to
- A robust system of internal control should be established for administration and management of betting

verified that the objective of minimizing issues by allowing the direct interaction between the taxpayer and tax authority through automation of taxation process via the said system has been achieved by ensuring transparency between the two parties.

limited number of files, such information has not been recorded in the RAMIS software and gaming levies.

c) Action should be taken in accordance with Section 5.4.12 of the Government Procurement Guidelines on Value Added Tax paid to the taxpayers by public institutions whilst the taxpayers should comply with Sections 26 (1) and 21 (1) (b) of the Value Added Tax Act, No. 14 of 2002. The following matters were observed in the audit test check relating to the Value Added Tax that had been paid to the suppliers by 06 public institutions, being recovered by the Department.

(i.) Value Added Tax totalling Rs.

205,813,913 paid by 305 active taxpayers in the years 2019, 2020 and 2021, had not been remitted to the Department either because the said Value Added Tax had not been included in the schedules or the schedules had not been recorded in the RAMIS software.

Not replied.

The relevant Guideline of the Government Procurement Guidelines and provisions of the Value Added Tax Act, No. 14 of 2022 should be complied with.

(ii.) As the value reported to the

Department by 14 taxpayers through Value Added Tax reports, had not been settled correctly, taxes totalling Rs. 524,665,221 remained unrecovered to the Government. The items of work relating thereto, had not been completed up to the date of audit.

Not replied.

The items of work being assigned to the officers through the system, should be completed in a timely manner thereby recovering the taxes.

- |    |  |              |   |
|----|--|--------------|---|
|    | (iii.) A sum of Rs. 569,506 paid to 05 inactive taxpayers and Value Added Tax totalling Rs. 1,144,529 collected by taxpayers who had not registered with the Department of Inland Revenue for Value Added Tax, remained unrecovered to the Department. Due to failure in accurately providing reports relating to Value Added Tax totalling Rs. 1,756,811, it could not be verified as to whether those taxes had been correctly remitted to the Department. | Not replied. | Deficits/omissions caused by the system or taxpayers and other technical glitches should be properly managed. |
| d) | The process of issuing assessment reports on corporate income tax (CIT) for the assessment year of 2018/19.  |              |   |
|    | (i.) The Commissioner-General May send a notice to the taxpayer demanding payment when a tax is not paid by the date on which it became due and payable in terms of Section 152 of the Inland Revenue Act, No. 24 of 2017. Amended or additional returns of assessment may be issued   | Not replied. | Action should be taken in accordance with the relevant Sections of the Inland Revenue Act, No. 24 of 2017.    |

within 30 months from the date of filing the self assessment return in terms of Section 135 (2) (b) of the said Act. However, due to failure of the Commissioner-General in filing assessment returns/recovering dues totalling Rs. 759,163,289 from 47 institutions for the assessment year of 2018/2019 even by the date of audit on 22 September 2022, those taxes had become under prescription.

- (ii) If an amount of tax is not paid by the due date, the taxpayer shall be liable for interest on the amount for the period from the due date to the date the tax is paid in terms of Section 157 of the Inland Revenue Act, No. 24 of 2017. Contrary to that Section, interest had not been recovered on taxes totalling Rs. 10,087,748 that had been paid by 02 institutions after the due date.

Not replied.

Section 157 of the Inland Revenue Act, No. 24 of 2017 should be followed.

- e) Issue of clearance certificates/tax certificates despite the tax liability.

- (i) According to the tax certificate for renewal of the liquor license, it is necessary to certify that relevant taxes have been paid/a methodology has satisfactorily put in place for paying taxes. However, as per instructions given by the Commissioner-General on the issue of tax certificates to the liquor licensees, clearance certificates had been issued by considering only the payments made in the preceding year

Not replied.

Clearance certificates should be issued only after verifying that relevant taxes have been paid / a methodology has satisfactorily been put in place for recovery of taxes.

		<p>after disregarding the outstanding taxes. The certificates had been issued irrespective of tax liability amounting to Rs. 5,192,556 due from 06 taxpayers as observed in audit on the RAMIS software.</p>	
(ii.)	It was observed in audit test check conducted on the RAMIS software that clearance certificates had been issued in other instances despite taxes amounting to Rs.24,269,657 had to be further charged in relation to 15 taxpayers, and 10 such certificates had been issued when no tax returns had been furnished although receipt of tax returns should be verified before issuing certificates.	Not replied.	Clearance certificates should be issued only after verifying that relevant taxes have been paid / a methodology has satisfactorily been put in place for recovery of taxes.
(iii.)	Although it was mentioned in the letter issued by the Department on 08 April 2019 that the CIT had been paid properly for the assessment years of 2012/2013, 2013/2014, and 2014/2015 as per tax returns of a taxpayer, the clearance certificate had been issued despite the tax liability of Rs. 8,960,581 for the said period in accordance with payment records maintained in the Legacy system and RAMIS software.	Not replied.	Clearance certificates should be issued only after verifying that the relevant taxes have been paid / a methodology has satisfactorily been put in place for recovery of taxes.
f)	Due to late settlement of electricity bills of the offices of the Department of Inland Revenue to which electricity had been supplied under GP-2 category, an interest on delay totalling	As priority had been given to avoid disconnection of power in the wake of crisis in the	Expenses of the Government should be properly managed in accordance with the relevant Circular.

Rs. 571,661 had been paid by the country, further action will be taken promptly in terms of Financial Regulation 210 (2) on the loss sustained by the Government due to the said expenditure incurred contrary to the Circulars relating to the management of expenditure.

Regulation 210 (2) relating to the loss sustained by the Government.

#### **4. Human Resource Management**

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
a) The total number of vacancies stood at 437 as at 31 December 2022 whereas 320 and 387 vacancies existed in the years 2020 and 2021 respectively. As such, the number of vacancies in the Department had gradually increased thus representing 15 per cent of the approved cadre as at 31 December 2022.	Action is being taken to make recruitments to 71 vacant posts of Grade III of the Sri Lanka Inland Revenue Service.	Action should be taken to make appointments to the vacant posts of the Department.
b) By the end of the year under review, 261 posts in the senior level remained vacant indicating an increase of 25 posts as against the preceding year.	As officers had been appointed in acting capacity, performance of the Department is not affected.	Action should be taken to make recruitments to the essential posts.
c) In order to maintain the RAMIS software of the Department of Inland Revenue, approval had been given to establish 10 posts of Deputy/Assistant Director of Grade II , III of Class I of the Information Communication Technology Service of Sri Lanka along with 29 posts of Information Communication Technology Officer of Grade II of Class 2 under that service. Nevertheless, it was observed that 12 posts of Deputy / Assistant Directors of Grade I of Class II, III and 28 posts of Information Communication Technology Officer in tertiary level, had remained vacant since 2020.	The Director General of Combined Services is responsible for filling those vacancies. Action had been taken to inform him in that connection several times.	Recruitments should be made to the essential posts.

- d) As a staff qualified to maintain the RAMIS project had not been appointed, the project could not be taken over by the Department even up to the present day. Due to failure of the Department of Inland Revenue in properly adhering to the plan according to which 24 Modules of the RAMIS would be acquired under 03 phases with new staff being appointed, acquisition of the said project by the Department had continuously delayed, thus observing that additional expenses were being incurred.
- Not replied.
- Recruitments should be made to the essential posts.