

Inland Revenue Incentive Fund - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Inland Revenue Incentive Fund of the Department of Inland Revenue for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended and notes to 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines 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 Responsibilities for the Audit of the Financial Statements

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

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

- 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 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 audit 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 audit 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; whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
1.5.1.1	In the presentation of financial statements, under Section No. 21 of Sri Lanka Public Sector Accounting Standard 01 and under the guidelines relating to the preparation of final accounts of funds of the Ministry of Finance's Public Finance Circular No. 01/2020 dated 28 August 2020, the financial statements of a fund should be included the statement of change in equity/ net assets, however, during the presentation of the financial statements for the Inland Revenue Incentive Fund, it was observed that the financial statements had not been presented in accordance with the theoretical framework that should be in a set of financial statements, because of the statement of changes in net assets/ equity, which is a main component under the financial statements, has given as a sub-section under the descriptive notes.	That the relevant officials have instructed to submit in accordance with the relevant formats in the future.	Accounts should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.
1.5.1.2	The Fund had not been specifically disclosed the financial reporting framework since it was stated under the notes in the financial statements that the Inland Revenue Incentive Fund has prepared the financial statements of the fund using the Public Sector Accounting Standards of Sri Lanka as well as generally accepted accounting principles. Furthermore, according to Sri Lanka Public Sector Accounting Standard No. 01, the preparation of financial statements was supported by applying the accrual basis of accounting. However, in preparing the incentive fund account, the basis of accounting as per Section 131 of Standard No. 01 had not been disclosed in the final financial statements of the year under review.	That the final financial statements of the Inland Revenue Incentive Fund for the year 2023 has prepared on the cash basis and that the relevant officials have instructed to mention the accounting basis in the final financial statements of the Inland Revenue Incentive Fund from the next year.	Accounts should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.1.3 According to the Public Finance Circular No. 01/2020 of the Ministry of Finance dated 28 August 2020, FR 877 (2) under the sub-section of Fund Accounts, Financial Statements and Performance Reports, it was stated that no expenditure shall be incurred by the Fund without the authority received in accordance with the statutory provisions for the Fund or the authority received under the Financial Regulation provisions, but in the Inland Revenue Incentive Fund Account for the year 2023, the statutory provisions for authorizing the expenditure of the fund had not been disclosed under the reporting basis.

Also, information to be published in accordance to Section 150 of Sri Lanka Public Sector Accounting Standard No. 01 had not published with the information in any other place in the financial statements shall be disclosed by an entity, information on

- a) Permanent place of residence and legal nature of the entity and the region in which it operates
- b) Reference to the legislation governing the operations of the entity

It was observed that it has not been disclosed for information to the users of the financial statements.

That the approval related to incurrence of Inland Revenue Fund was received by letter No. MF 1/02/17/IRD/25-Est. dated 16 January 2023 of the Secretary, Ministry of Finance, Economic Stabilization and National Policy and that the approval for revising the Expenditure Estimate of Incentive Fund within the approved limits was received by letter No. MF 1/02/17/IRD/25-Est dated 14 June 2023 and that the activities related to the payment of incentives in the year 2023 were carried out by the special committee called the Incentives Committee

The relevant information should be disclosed in the accounts in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
<p>Although the Inland Revenue Incentive Fund should be established in accordance with the provisions of Section 99 of the Inland Revenue Act No. 24 of 2017, since this fund had not been practically established so far and the housing loan deposit with a balance of Rs. 41,440,057 as at 31 December 2023 had been maintained in the name of the Commissioner General of Inland Revenue, due to the fact that the department was not entitled to account the withholding tax amount of Rs. 60,314 that deducted by the bank on the gross interest</p>	<p>In the year 2023 Rs. 1,363,058 gross interest income has been received and a withholding tax of 5% has been levied on that interest income and although the Inland Revenue Incentive Fund should be established in accordance with the provisions of Section 99 of the Inland Revenue Act No. 24 of 2017, this fund has not</p>	<p>The fund should be established and the deposit should be maintained in the name of the fund and the tax obligations on the interest income received should be dealt with in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.</p>

income of the said deposit as receivable been established in practice withholding tax income, therefore the still. interest income of the fund had been understated by that amount.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Public Finance Circular No. 01/2020 dated 28 August 2020	A performance report with certified financial statements about the fund had not been submitted to the Auditor General within 02 months after the end of the accounting year.	That the annual budget document has been prepared and submitted for the approval of the Minister of Finance in accordance with the Public Finance Circular No. 01/2020 and the approval has been obtained.	Actions should be taken in accordance with the circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 6,999,390 as compared to the corresponding surplus of Rs. 9,060,958 for the preceding year thus, observing a deterioration of Rs. 2,061,568 in the financial result. The incentive cost of Rs. 54,300,863 and the increase in the tea allowance by 103.12 percent or Rs. 18,701,778 compared to the previous year had mainly attributed to the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
3.1.1 The balance of the housing loan fund established in the State Mortgage and Investment Bank with an initial deposit of Rs. 2,500,000 for the purpose of providing housing loans to officers engaged in the Inland Revenue Service was Rs. 41,440,057 as at 31 December 2023 and an amount of Rs. 4,716,605 was still to be collected from 15 officers who had been given a loan of Rs. 14,100,000 on that day. The last loan had been given to an officer on 05 December 2011 and any loan had not been given to departmental officers for more than 12 years since that date.	That the money provided by the Treasury for the Inland Revenue Incentive Fund has been deposited in the State Mortgage and Investment Bank and a housing loan fund has been established, and the permanent officers of the Inland Revenue Service have been given loans on the basis of real estate collateral and the maximum loan amount given was Rs. 1,000,000. That any loan applications have not been received from officials after the year 2011 for that loan amount.	Necessary actions should be taken to fulfill the purpose of establishing the loan fund.

- 3.1.2 According to the agreement between the Inland Revenue Department and the State Mortgage and Investment Bank, the maximum loan amount of Rs. 1,000,000 can be received only if the applicant or spouse or dependent children do not own land or a house at the time of application. Also, in obtaining this loan amount, due to the loss of the opportunity to an officer to apply for the property loan under the government property loan scheme, due to the officials turning to the more attractive loan scheme, any applications had not been received for obtaining home loan from this loan scheme for the past few years. The attention of the authorities should have been focused on the need of reviewing the conditions mentioned in the agreement signed by the department with the State Mortgage and Investment Bank on 10 April 1989.
- That the money provided by the Treasury for the Inland Revenue Incentive Fund has been deposited in the State Mortgage and Investment Bank and a housing loan fund has been established, and the permanent officers of the Inland Revenue Service have been given loans on the basis of real estate collateral and the maximum loan amount given was Rs. 1,000,000. That any loan applications have not been received from officials after the year 2011 for that loan amount.
- Necessary actions should be taken to fulfill the purpose of establishing the loan fund.
- 3.1.3 The loan account of the Inland Revenue Housing Loan Fund, worth nearly 16 percent of its total assets as at 31 December 2023, had been held at an inactive level for over 10 years, and the interest on the credit balance was at a level of nearly 3 percent, which was disadvantageous in comparison with other financial deposits. The audit was observed that the performance of the loan fund is at a minimum due to the absence of a formal system for developing the balance of the loan fund.
- That the money provided by the Treasury for the Inland Revenue Incentive Fund has been deposited in the State Mortgage and Investment Bank and a housing loan fund has been established, and the permanent officers of the Inland Revenue Service have been given loans on the basis of real estate collateral and the maximum loan amount given was Rs. 1,000,000. That any loan applications have not been received from officials after the year 2011 for that loan amount.
- Necessary actions should be taken to fulfill the purpose of establishing the loan fund.
- 3.1.4 As presented in the financial statements submitted for audit by the Inland Revenue Department for the year ending 31 December 2023, the basic revenue estimate of the Inland
- That the achievement of the given targets, incentives are achieved for those branches and maximum incentives have been
- A proper program should be established to evaluate performance for incentives.

Revenue Department for the year 2023 was Rs. 2,090 billion and the actual earned income on 31 December 2023 was Rs. 1,832 billion and therefor it was a decrease of 12 percent as a percentage of the basic revenue estimate. However, in the payment of incentives for the first half of 2023 for the department officers, out of the 96 sub-branches that were evaluated, except for 08 branches, all the remaining branches had been achieved full bonus marks considering that the work performance exceeding 112 percent given to all branches except 8 branches.