

## **Report of the Auditor General on Head 108 – Ministry of Postal Services and the Department under the Ministry - Year 2014**

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Paragraphs 1 and 2 of this Report contain the general information on the Accounts of the Ministry and the Department under the Ministry and the Audit Observations on each Head appear in paragraphs 3 to 4.

### **1. Department under the Ministry of Postal Services**

Head ----- 308	Department ----- Department of Posts
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#### **1.1 Scope of Audit**

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Ministry of Postal Services and the Department appearing in Paragraph 1 above for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Chief Accounting Officer of the Ministry and the Accounting Officer of the Department on the under mentioned dates. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

<u>Head</u>	<u>Ministry/ Department</u>	<u>Date of Issue of Management Audit Report</u>
108	Ministry of Postal Services	02.09.2015
308	Department of Posts	02.09.2015

## 1.2 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Accounts Revenue Account and the Reconciliation Statements in accordance with the provisions in Article 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and the Public Finance and Administrative Regulations. This responsibility includes: designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Accounts

#### Total Provision and Expenditure

The total net provision made for the Ministry and the Department under the Ministry amounted to Rs.10,086 million and out of that a sum of Rs.9,993 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Ministry and the Department amounted to Rs.51 million and Rs.42 million respectively and represented 14 per cent and 0.4 per cent of the net provisions. Details appear below.

Head	<u>As at 31 December 2014</u>			Savings as a Percentage of Net Provision
	<u>Net Provision</u>	<u>Utilization</u>	<u>Savings</u>	
	Rs.Millions	Rs. Millions	Rs. Millions	
108	359	308	51	14.2
308	9,727	9,685	42	0.4
Total	10,086	9,993	93	0.9

## 2.2 Revenue Account

### Estimated and Actual Revenue

The Department had estimated revenue amounting to Rs.6,200 million in respect of Revenue Code 20.01.02.00 for the year 2014 and revenue totalling Rs.6,557 million had been collected. Accordingly the revenue had been collected exceeding the estimated revenue by Rs.357 million or 6 per cent.

## 2.3 Advance Accounts

### 2.3.1 Advances to Public Officers Accounts

#### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Accounts of the Ministry and the Department under the Ministry and the actual amounts are given below.

Item Number	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
10801	4.0	3.0	1.9	2.8	30.0	10.2
30801	650.0	557.7	520.0	563.9	2,200.0	1,757.8

## 2.4 Imprest Accounts

The Imprest balances of the Ministry and the Department under the Ministry as at 31 December 2014 totalled Rs.732.17 million. Details appear below.

Ministry/ Department	Imprest Account Number	Balance as at 31 December 2014
		Rs.Millions
Ministry of Postal Services	7002/0000/00/0349/0014/000	0.63
Department of Post	7002/0000/00/0098/0014/000	731.54
Total		732.17

## 2.5 General Deposit Accounts

The balances of Deposit Accounts of the Ministry and the Department under the Ministry as at 31 December 2014 totalled Rs.50.39 million. Details appear below.

<b>Ministry / Department</b>	<b>Deposit Account Number</b>	<b>Balance as at 31 December 2014</b>
-----	-----	-----
		Rs.Millions
Ministry of Postal Services	6000/0000/00/0015/0022/000	5.87
Department of Post	6000/0000/00/0015/0162/000	44.52
		-----
		50.39
		=====

## 2.6 Audit Observation

According to the Financial Records and Books for the year ended 31 December 2014 it was observed that subject to the audit observations appearing in the Management Audit Report referred to in Paragraph 1.1, the Appropriation Accounts, Revenue Account and the Reconciliation Statements of the Ministry of Postal Services and the Department under the Ministry have been prepared satisfactorily. The material and important observations out of the observations included in those Management Audit Reports appear in Paragraph 3 to 4 herein.

## 3. Head 108 – Ministry of Postal Services

### 3.1 Appropriation Account

#### Budgetary Variance

The following observations are made.

- (a) The entire net provision amounting to Rs.300,000 made for 02 Objects had been saved.
- (b) Excess provisions had been made for 17 Objects and as such the savings after the utilization of provisions ranged between 12 per cent to 85 per cent of the net provisions relating to the respective Objects.

### **3.2 Reconciliation Statement of the Advances to Public Officers Account**

The following deficiencies were observed during the course of audit test checks of the Reconciliation Statement as at 31 December 2014 relating to the Advances to Public Officers Account Item No.10801.

- (a) Even though the total of the Summary of Individual Balances of the Advance Account as at 31 December 2014 amounted to Rs.11,125,572, it was shown as Rs.10,231,005 according to the Control Account. Accordingly it was revealed a difference of Rs.894,567.
- (b) According to the Reconciliation Statement presented to audit, the balances that remained outstanding as at that date totalled Rs.206,391. Even though those outstanding balances remained over periods ranging from 04 years to 06 years, the follow-up action on the recovery of the outstanding balances had been at a weak level.

### **3.3 Unsettled Liabilities**

The unsettled liabilities of the Ministry remained less than one year as at 31 December 2014 amounted to Rs.41,694,964. The following observations are made relating to those liabilities.

- (a) The bills amounting to Rs.36,526,500 for obtaining computers and accessories under Post Office Network Project had been received as at the end of December 2014. A sum of Rs.12,636,000 out of that liabilities had not been settled even by 30 June 2015.
- (b) Liabilities of Rs.2,102,559 had been committed exceeding the savings after utilization of provisions made under 12 Objects without complying the Financial Regulation 94(i).
- (c) The liabilities committed relating to the year 2014 amounting to Rs.434,103 which paid in the year 2015 had not been included in the Statement of Liabilities in the Appropriation Account.

### **3.4 Implementation of Projects under Domestic Financing**

The Cabinet Memorandum No.12/2007 dated 31 October 2007 had been submitted by the Minister of Postal and Telecommunication to implement the Post Office Network Project and it was expected to implement following activities.

- (a) Establishment of a proper methodology to collect expected revenue.
- (b) Establishment of a strategy to earn revenue from new businesses.
- (c) Avoid continuous losses incurred by the Department of Post and to maintain equality position of the income and expenditure.

The following observations are made, in this connection.

- (i) It was planned to commence the Post Office Network Project with an estimated expenditure of Rs.300 million in the year 2008 and was scheduled to be completed by 31 December 2012. Subsequently it was scheduled to complete the relevant work in the year 2014 after a delay of 2 years.
- (ii) Original cost estimate had been increased by 116 per cent up to Rs.648.8 million and a sum of Rs.514.27 million out of that had only been incurred as at 31 December 2014. Even though the estimated cost of this project for the year under review had been Rs.174.52 million, a sum of Rs.135.93 million had been incurred thereon. That represented 78 per cent of the estimated expenditure.
- (iii) Even though a work done report should be prepared after completion of the project, it had not been prepared.
- (iv) One objective expected to be achieved from the project is to avoid continuous losses incurring by the Department of Post and maintain equality position of the income and expenditure. Nevertheless a loss of Rs.2,984 million had been incurred in the year under review. That loss had increased by Rs.125 million as compared with the preceding year.

Accordingly the objective of the project had not been achieved in the year under review.

(v) The following deficiencies were made in preparing money order account due to the weaknesses remained in the MORS and E-Pay Softwares introduced by the project.

\* Issuing and paying of money orders and commission revenue could not be computed correctly due to non-inclusion of all issues and payments of money orders into the computerized system in the year 2013.

\* Non- availability of an individual list of balances through computer system.

\* The balance to be credited to the state revenue and balance to be brought forward could not be identified due to non-availability of the unsettled balance of the money orders through computer system in the year 2013.

\* There were differences of Rs.4,957 million, Rs.3,589 million and Rs.20 million between the balances generated through the computer software of the Department and balances according to the Reconciliation Statement of the Money Order Account relating to issuing money orders, payments of money orders and commission revenue of the money orders respectively.

### **3.5 Irregular Transactions**

#### **Deviation from Government Procurement Procedure**

Instances of non-compliance with the provisions of the Government Procurement Guidelines were observed in respect of the following purchases.

(a) **Purchases of Computers, Computer Printers, Un-interrupted Power Supply Units and 500 Virus Guards.**

Computers, Computer Printers, Un-interrupted Power Supply Units and 500 Virus Guards had been purchased for the Post Office Network Project to the value of Rs.72,387,000 in the year under review. The following observations are made in this regard.

- (i) Bids had not been called according to National Competitive Bidding Procedure for the above procurement in terms of Guideline 3.2.1 of the Government Procurement Guidelines.
- (ii) It was failed to select a qualified supplier at the Procurement Committee Meeting held on 07 November 2013. The minimum bid of Rs.69,350,000 (excluding Vat) submitted out of 05 institutions had been rejected giving following reasons.
  - Even though net liquid assets of Rs.25 million at least should have been with the bidder, he had only net liquid assets valued at Rs.6.15 million with him, and
  - if the bidder expect to supply, maintenance and technological services from another stores/ institution not owned by him he should be submitted the agreements thereto, but he had not submitted those agreements.
- (iii) When obtaining audited financial statements for 03 years to check the eligibility of the bidders for the procurement, there was a possibility to obtain financial statements for the year 2012/2013. Nevertheless the financial statements relating to the years 2009/2010, 2010/2011 and 2011/2012 had been obtained.



- (iv) Without following National Competitive Bidding Procedure the bids had been invited again from the suppliers who had been considered as ineligible suppliers in first procurement using the prior bid inviting method on 02 January 2014. Accordingly, it was made an opportunity to submit quotations again to suppliers who had been considered as ineligible before 02 months.
- (v) The lowest quotation had been submitted by the previous bidder in second procurement as well. The value of the bid had been Rs.72,387,000 (excluding Vat). In this context, it was considered the financial statements for the year 2012/2013 and the net liquid assets of the institution had increased up to 39 per cent. Accordingly the contract had been awarded to said bidder.
- (vi) There was an opportunity to the Ministry to save Rs.3,037,000 in previous procurement by obtaining audited financial statements for the year 2012/2013 from the lowest bidder and having a discussion with him, by obtaining required information and awarding contract to him. Similarly the procurement process could have been finalized in the year 2013 as well.

**(b) Purchase of 250 Computers and Computer Accessories**

Without taking a decision to purchase required computers to Post Office Network Project at same time, it was agreed to purchase another 250 computers and computer accessories from above private institution through another purchase order to the value of Rs.36,256,500 on 11 July 2014 as soon as the finalization of procurement of 500 computers and computer accessories. The following observations are made in this regard.

- (i) According to the Procurement Plan of the Ministry for the year 2014, the procurement for purchase of computers and accessories under the Post Office Network Project should be finalized by 14 February 2014. Nevertheless this procurement had been completed on 02 February 2015.

(ii) The following deficiencies were observed during the physical examination carried out relating to the purchase of these computers.

\* The computers and the computer printers supplied to the following Sections of the Postal Headquarters had been kept in the containers as it is without utilizing even by 10 July 2015.

<u>Section</u>	<u>Item</u>	<u>Number</u>
Information Technology Section	Computers and Computer Accessories	15
	Computer Printers	05
Postal Management Training Section	Computers and Computer Accessories	20
	Computer Printers	01

\* Twenty eight Computer Printers had remained in the stores without utilizing even by 29 June 2015.

According to the above reasons, it was observed that the computers and computer printers had been purchased without a requirement.

(c) **Obtaining a Vehicle on Hiring Basis**

The bids should be invited by the Ministry in obtaining a vehicle on hiring basis for the Deputy Minister. Nevertheless, the Deputy Minister had obtained quotations from 3 institutions and submitted to the Ministry. Accordingly a vehicle had been obtained on hiring basis of Rs.245,000 in March 2014 without entering into an agreement.

(d) **Registered List of Suppliers**

Even though the registered list of suppliers should be updated periodically at least once a year in terms of the Guideline 3.4.3(d) of the Government Procurement Guidelines, the list for the year 2014 had not been updated.

### **3.6 Transactions in the Nature of Financial Irregularities**

The particulars of transactions of fraudulent nature observed during the course of test checks are given below.

- (a) Despite 02 diesel vehicles and one petrol vehicle had been allocated to the Subject Minister the vehicle allowance had been given for 03 vehicles as for one diesel vehicle and 02 petrol vehicles. Accordingly, a sum of Rs.2,160,000 had been overpaid from June 2010 to July 2014. Even though it was decided to recover that allowance by 43 installments at the rate of Rs.50,000 and one installment at the rate of Rs.10,600, the particulars for such recoveries or actions taken against the responsible officers had not been furnished to audit.
  
- (b) Despite a diesel vehicle had been allocated to the Secretary to the Minister, monthly vehicle allowance had been paid as for a petrol vehicle. Accordingly, a sum of Rs.88,560 had been overpaid from January to September 2014. It had not been computed the overpaid amount for the prior years as well and action had not been taken against the responsible officers thereon.

### **3.7 Uneconomic Transactions**

The particulars of transactions entered into devoid of economy revealed during the course of audit test checks are given below.

#### **(a) Preparation of a Stamp Book**

Contributions of Rs.5,088,899 had been obtained from the sponsors from the year 2012 to 2013 to prepare 1,000 books including stamps and retained in the General Deposit Account. The following observations are made in this regard.

- (i) Contributions collected from the sponsors had not been fully utilized for that purpose, and a sum of Rs.3,600,000 had been incurred from the Objects of 108-1-2-2502 and 308-2-1-2502 of the Ministry of Postal Services and the Department of Post. Out of the funds so collected from the sponsors, a sum of Rs.1,224,757 had been retained in the General Deposit Account even by 31 December 2014.

- (ii) Hundred and fifty books issued to the Honourable President had been taken over by an officer to be handed over to the Presidential Secretariat. The Post Master General had informed to audit that 100 books out of that had been handed over to the Presidential Secretariat and 50 books had been handed over to the Sri Lanka Telecommunication Exchange Commission. But the evidence relating to the taking over by the relevant parties had not been furnished to audit.
- (iii) It was planned to award stamp books to the Heads of Government who participated for the Commonwealth Heads of Government Meeting and to be sold the stamp books to the local and foreign buyers. Nevertheless, the books had not been printed even before the date which commenced that meeting. Seventeen books with stamps and 45 books without stamps had only been issued to be sold by 16 April 2015, the date of audit. Four books with stamps and 17 books without stamps had only been sold at Rs.455,000 by 16 April 2015.
- (iv) Sixty one books with stamps valued at Rs.3,050,000 and 188 books without stamps valued of Rs.2,820,000 had been distributed free of charge among the people and institutions out of the books printed exempt from the objective of printing books in the year under review.
- (v) The manner of the settlement of value of the stamps amounting to Rs.237,113 included in the books with stamps given at free to the people and institutions had not been explained in audit.
- (vii) Out of the money received from sponsors a sum of Rs.250,000 had been paid as three wheeler charges for 500 days at the rate of Rs.500 per day to a Staff Assistant for preparing the stamp book. According to the provisions of the Establishments Code such payments should be paid with the approval of the Director, Establishment. Nevertheless, it had not been so done. No evidence whatsoever had been furnished with the voucher relating to the travelling as well.

### **3.8 Management Weaknesses**

The following weaknesses were observed during the course of audit test checks.

- (a) Without enquiring the reason for non-obtaining the monthly salary of a consultant of the former Minister of Postal Services, salaries and other allowances totalling Rs.992,010 from 01 March 2013 to 30 April 2014 had been retained in the General Deposit Account. A crossing cancelled cheque valued at Rs.992,010 had been handed over to a representative of the possessor without confirming of his identity on 20 June 2014.
- (b) Even though the Ministry of Postal Services had been established by the Gazette Notification dated 22 November 2010, the vehicles remained as at that date had not been registered by the name of the Ministry. Fourteen vehicles had been registered by the name of the Secretary of then Ministry of Postal, Telecommunication and Plan Implementation.
- (c) In terms of the provisions of the Public Finance Circular No.353 (5) dated 31 August 2004 action should be taken to dispose the vehicles which were not in running condition and could not be repaired to utilize economically. However, 03 vehicles of the Ministry of Postal Services had been in the condemned position as at 15 October 2014.
- (d) As fuel had not been obtained after 03 October 2012 for a vehicle received from the Ministry of Irrigation and Water Management or running charts of the vehicle had not been furnished to audit, the utilization of that vehicle could not be checked. The vehicle had been returned to the relevant Ministry on 11 November 2014.

- (e) A vehicle brought by the Minister of Irrigation and Water Management in the year 2010 had been shown as a pool vehicle in the Register of Vehicles. Daily Running Charts for the above vehicle had not been furnished and the fuel also had not been obtained from the Ministry. The Secretary of the Ministry had informed to audit that the vehicle is being kept in the District Courts Premises, Mount Lavinia for a court case.
- (f) Daily Running Charts of the vehicle of the Ministry utilized up to 04 January 2014 by the Co-ordinating Secretary of the Minister had not been furnished to audit after that date. Even though this vehicle had been kept in the garage on 31 January 2014, action had not been taken to obtain the vehicle back even by 15 October 2014, the date of audit.
- (g) The confirmations required for the utilization of a pool vehicle of the Ministry after 05 September 2012 had not been furnished to audit.
- (h) According to the Milometer of the vehicle used by the Co-ordinating Secretary of the Minister up to 28 June 2014, 203212 kilometers had been run as at that date. It was informed to audit that the above vehicle had been kept in the garage from 17 July up to 15 October 2014 for repairs. According to the physical examination carried out on that date, 210162 kilometers had been run as per the milometer. Even though, 6950 kilometers had been run during the above period of not assigned duties, the running charts had not been furnished thereon and the fuel also had not been obtained.
- (i) Despite the official vehicles had been allocated, 03 pool vehicles had been utilized by three officers of the Ministers staff and one officer of the Deputy Ministers staff.

**3.9 Human Resources Management**  
**Approved Cadre and Actual Cadre**

The position of the cadre as at 31 December 2014 had been as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
	-----	-----	-----	-----
(i)	Senior Level	12	11	01
(ii)	Tertiary Level	03	01	02
(iii)	Secondary Level	52	44	08
(iv)	Primary Level	28	23	05
(v)	Others (Casual/ Temporary/ Contract Basis)	04	03	01
		-----	-----	----
	Total	99	82	17
		=====	====	==

The following observation is made.

The Ministry had failed to fill 17 vacancies by the end of the year under review.

#### **4. Head 308 – Department of Posts**

##### **4.1 Imprest Account**

The following observations are made in this connection.

- (a) The unsettled sub-imprest balances of the District Accounts Offices should be settled as at 31 December 2014. Nevertheless, the cash balances remained in the District Accounts Offices including the unsettled sub imprest balances amounting to Rs.1,270,928 had been transferred to the Imprest Account of the year 2015.
- (b) The balance amounting to Rs.313,432 remained in the bank account commenced relating to the transactions of Hongkong and Shanghai Banking Corporation as at 31 December 2014 had not been settled to the Treasury even by 29 July 2015.
- (c) Ad hoc sub-impressts totalling Rs.600,000 had been issued in 30 instances for non-staff grade officers contrary to the provisions in the Financial Regulation 371.
- (d) Even though the ad-hoc sub-impressts should be settled immediately after the completion of the purpose for which it is granted in terms of Financial Regulation 371, action had not been taken accordingly relating to the sub-impressts obtained in 18 instances totalling Rs.1,306,489.

##### **4.2 General Deposit Account**

Action in terms of Financial Regulation 571 had not been taken on deposits that remained for over 02 years amounting to Rs.10,598,926 as at 31 December 2014.

##### **4.3 Revenue Account**

The following deficiencies were observed during audit test checks carried out relating to the Revenue Account of Revenue Code 20.01.02.00



(a) **Estimated Revenue and Actual Revenue**

The estimated revenue for the year under review amounted to Rs.6,200 million while revenue amounting to Rs.6,557 million had been collected. When preparing revenue estimates hypothetical figures had been applied without using actual figures and as such, the large variances were appeared between the estimated revenue and the actual revenue of each revenue items. The following matters were affected thereto.

- (i) There were 32 revenue items varied between the estimated revenue and actual revenue ranging from 11 per cent to 1,619 per cent.
- (ii) Even though revenue for the commission for death notices, commission of Sri Lanka Institute of Development Administration, letter management and hybrid mail had not been estimated for the year 2014, revenue totalling Rs.2,506,826 comprising Rs.119,829, Rs.26,385, Rs.2,335,612 and Rs.25,000 respectively had been collected in the year 2014 for those revenue items.
- (iii) Even though a sum of Rs.1,800,000 had been estimated as telephone revenue, the telephone revenue received amounting to Rs.3,201,012 during the year had not been shown under that revenue code. It had been brought to account as miscellenous deposits.
- (iv) Revenue from Courier Service of 4 hours had not been included in the revised estimate for the year 2014 and the revenue also had not been collected. An arrear of revenue for that service amounting to Rs.2,919,785 had been shown in the Revenue Account as at 31 December 2014.

**(b) Arrears of Revenue**

The following observations are made.

- (i) According to the Revenue Account presented, revenue amounting to Rs.52,972,816 had been in arrears in the International Account and the arrears of revenue were related to the periods ranging from 1 year to 4 years. The follow up action on the recovery of that revenue had been at a weak level.
- (ii) A sum of Rs.162,665,021 had been shown in the account as consolidated arrears of revenue of 3 Divisions as at 31 December 2014. But the total of the arrears of revenue prepared by those divisions had been Rs.138,253,795. Accordingly, a difference of Rs.24,411,226 was revealed.
- (iii) Revenue totalling Rs.36,308,019 had remained as arrears of free postal revenue from the Department of Examinations comprising Rs.30,420,493 and Rs.5,887,526 relating to the period from the year 2010 to 2013 and for the year under review respectively.
- (iv) According to the arrears of revenue report relating to the International Postal transactions a balance of Rs.140,080,547 had been adjusted as arrears of revenue newly identified relating to the period from the year 2010 to 2013. As such the amount disclosed at the year end as international postal arrears of revenue was not a realistic amount.

**(c) Reporting**

The following observations are made.

- (i) Quarterly Revenue Reports had not been furnished within 15 days after the end of the period to Director General of State Fiscal Policy and Economic Affairs in terms of Paragraph 07 of the Circular No.01/2002 of the State Fiscal Policy and Economic Affairs dated 17 July 2012.

- (ii) The decrease of revenue had ranged from 10 per cent to 100 per cent in the year 2014. However, revenue of 15 revenue items had decreased by Rs.278,756,304 as compared with the preceding year. Nevertheless, action had not been taken relating to these decreases with obtaining instructions from the Department of State Fiscal Policy and Economic Affairs in terms of the Paragraph 05 of the above Circular.
- (iii) Even though it should be reconciled the statement of accounts prepared monthly on the data based on the revenue collected by the Department of State Accounts with the amounts shown according to the Departmental books and a report should be furnished to the Director General of State Accounts before the end of the following month, action had not been taken accordingly for the months of July, November and December in the year 2014 in terms of the Paragraph 04 of the State Accounts Circular No.187/2006 dated 27 September 2006.

**(d) Accounting of Revenue**

According to the Cash Book for the year under review the International Postal Revenue had been Rs.37,842,890. However the revenue had been shown as Rs.40,213,565 in the Revenue Account. The International Postal Revenue Cash Book had not agreed with the Revenue Account for the year 2013 as well. Part of the revenue had been credited to the Deputy Accountant's Account was the reason for that difference. Action had not been taken to correct that difference even in the year under review.

(e) **Revenue of Communication Centre**

The following observations are made.

- (i) Reply to query issued calling information to the Post Master General on 12 February 2015 relating to the Communication Centres implementing at present by the Department of Post had not been furnished to audit even by 30 July 2015. Therefore, communication centres in operation at present and non-operating communication centres and the revenue of each communication centre could not be identified.
- (ii) According to the provisions of the Circular of the Post Master General No.14/2000 dated 07 November 2007, a Profit and Loss Account for the communication centres should have been prepared at the end of every month. Nevertheless, a method to account receipts and payments of the communication centres had been followed.
- (iii) Even though the revenue of Rs.44,184,797 received from April to December 2014 had been shown in the Revenue Account of the communication centres, the receipts and payments for the above period had been shown in the Deposit Account. Details are as follows.

	<b>Rs.</b>
Balance as at 01.01.2014	35,262,146
Receipts during the year 2014	36,673,316
	-----
	71,935,462
Payments during the year 2014	64,894,194
	-----
Balance as at 31.12.2014	7,041,268
	=====

Even though revenue retained in the Deposit Account as above should be credited to the Consolidated Fund, it had not been so done and the adjustments also had not been made to the accounts on accrual basis. As such the balance of Rs.35,262,146 as at 01 January 2014 had decreased up to Rs.7,041,268 as at the end of the year.

#### **4.4 Reconciliation Statement of the Advances to Public Officers Account**

The following deficiencies were observed during the course of audit test checks of the Reconciliation Statement as at 31 December 2014 relating to the Advances to Public Officer Account Item No.30801.

- (a) According to the Reconciliation Statement presented to audit, the balances that remained outstanding as at that date totalled Rs.42,730,199. Even though those outstanding balances remained over periods from 01 year to 05 years, the follow-up action on the recovery of the outstanding balances had been at a weak level.
- (b) The balance of Rs.215,903 included in the Creditors Register of loans and Advances for the month of June 2014 had not been shown in the Schedule of the Transfers to the Department of the Advance Account prepared by the Main Accounts Office.
- (c) Even though the loan balances should be settled within 02 months after a station transfer of an officer in terms of the National Budget Circular No.118 dated 11 October 2004, the total loan balance which had not taken action accordingly amounted to Rs.260,945.
- (d) Loan balances recoverable from three officers who transferred to Dehiwala - Mount Lavinia Municipal Council, Colombo Municipal Council and the Education Office, Homagama amounting to Rs.599,015 had not been settled as a total at the end of the year under review and action had been taken to recover as monthly installments.
- (e) The balance according to the Summary of Individual Balances, and the balance of the control accounts of the District Account Offices amounted to Rs.1,756,537,839 and Rs.1,757,801,644 respectively, and as such there was a difference of Rs.1,263,805.

#### **4.5 Good Governance and Accountability**

##### **4.5.1 Annual Action Plan**

The Annual Action Plan had not been prepared in terms of the Public Finance Circular No.01/2004 dated 17 February 2014.

##### **4.5.2 Annual Procurement Plan**

Annual Procurement Plan had not been prepared in terms of the National Budget Circular No.128 dated 24 March 2006.

#### **4.6 Assets Management**

The following deficiencies were observed during the course of audit test checks relating to the assets and the unsettled liabilities of the Department.

##### **(a) Conduct of Annual Boards of Survey**

The Boards of Survey Reports for Head Office, Central Mail Exchange and 11 Offices of Regional Postal Superintendent had not been furnished to audit even by 30 July 2015 in terms of Financial Regulation 756.

##### **(b) Unsettled Liabilities**

The following observations are made.

- (i) Liabilities for the year 2014 paid in the year 2015 amounting to Rs.962,951 had not been included in the Statement of Liabilities in the Appropriation Account.
- (ii) Liabilities of Rs.187,427,193 were committed exceeding the savings after utilization of provisions made for 11 Objects without complying the Financial Regulation 94(i).

#### **4.7 Performance**

The observations on the progress of the Department according to the Annual Budget Estimate and the Action Plan for the year 2014 are given below.

(a) **Key Functions not Executed Adequately**

The revenue earned and the expenditure incurred by the Department of post as compared with the preceding year are given below.

<b>Particulars</b>	<b>2013</b>	<b>2014</b>	<b>Difference</b>	<b>Increase as a Percentage</b>
-----	-----	-----	-----	-----
	Rs.Millions	Rs.Millions	Rs.Millions	
Revenue	5,907	6,557	650	11
Expenditure	8,766	9,541	775	8
Operating Deficit	2,859	2,984	125	4

Even though overall revenue had increased by 11 per cent as compared with the preceding year, operating deficit had increased by 4 per cent. That was an increase of Rs.125 million as compared with the deficit of the preceding year. The increase of expenditure including the salary increases made during the year under review had affected thereto.

(b) **Planning**

In examination of Action Plan furnished for the year 2014 and the progress thereon, 11 instances of non – compliances with the action plan were observed.

**4.8 Deficiencies in the Operation of Bank Accounts**

**Balances for Adjustment**

Information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared by the Department of Post for December 2014 is given below.

Particulars of Adjustments	Age Analysis			Total
	Over 06 months less than 01 year	Over 01 year less than 03 years	Over 03 years	
-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.
(i) Deposits not realized	149,742	948,586	500,000	1,598,328
(ii) Cheques issued but not presented for payment	69,221	-	-	69,221
(iii) Unidentified Debits	2,000	100	50,000	52,100
(iv) Unidentified Credits	23,160	-	-	23,160

The following observations are made in this connection.

- (a) There were 63 deposits valued at Rs.1,598,328 deposited in 05 current accounts but not realized as at 31 December 2014 even though 06 months had elapsed.
- (b) Fifty cheques valued at Rs.276,588 relating to the year 2012 and 06 cheques valued at Rs.672,000 relating to the year 2013 and 02 cheques valued at Rs.5,000 deposited to the current account of the District Office, Jaffna in January 2014 were not realized even by 31 December 2014.
- (c) An unrealised deposit balance amounting to Rs.500,000 remained brought forward from the year 2007 relating to the current account of the Colombo South District Accounts Office had been shown in the Bank Reconciliation Statements continuously. Similarly, the investigation relating to the payment of Rs.50,000 of the Head Office unidentified for over 3 years period as at 31 December 2014 had not been completed even by 17 July 2015.
- (d) Even though the payments should not be made exceeding the balance of the cash book, a sum of Rs.20,259,436 had been settled to the Deputy Secretary to Treasury exceeding the limit of the cash book of the Head Office Account on 31 December 2014.



#### **4.9 Irregular Transactions**

##### **Deviation from the Procudure laid down in the Government Procurement Guidelines**

Certain transactions entered into by the Department contrary to the Government Procurement Guidelines were revealed during the course of audit test checks. Several such instances are given below.

##### **(a) Supply of Tin Dockets and Lead Seals**

The following observations are made.

- (i) Even though the contracts for the procurements for supplying of 15,000 kilograms of lead seals to the value of Rs.7,039,200 and 5,000 kilograms of tin docketts to the value of Rs.2,228,800 had been awarded on 21 February 2014, the contractors had failed to supply those procurements.
- (ii) Even though the ability of the contractor to supply those goods had been confirmed by the Technical Evaluation Committee before awarding the contract for supplying tin docketts and lead seals in the year 2014, the tin docketts and lead seals had not been supplied by the contractor at due date in terms of the agreement.

##### **(b) Purchase of Jute String Balls and Jute String Ropes**

The contract had been awarded on 21 February 2014 for purchasing Jute String Balls and Jute String Ropes. According to the agreement entered into with that institution, 10,000 kilograms of Jute String Balls to the value of Rs.3,190,000 and 10,000 kilograms of Jute String Ropes to the value of Rs.2,960,000 should be supplied to the Department of Post before 21 July 2014. However, 5,061 kilograms and 5,890 kilograms only had been supplied from each item respectively as at that date.

(c) **Supply of Sealing Wax**

The contract had been awarded to supply of sealing wax on 21 February 2014. According to the agreement entered into with that institution 20,000 kilograms of sealing wax should be supplied at Rs.4,160,000 to the Department of Post by 21 July 2014. However, 14,730 kilograms only had been supplied as at that date. It was observed in audit that the operating process could not be continuously maintained due to non-receiving relevant supply to the stores in proper time.

(d) **Registered List of Suppliers**

Even though the registered list of suppliers should be updated periodically at least once in a year in terms of Guideline 3.4.3 (d) of the Government Procurement Guidelines, that list for the year 2014 had not been updated.

(e) **Purchase of Vehicle Spare Parts and Tyres**

The following observations are made.

- (i) A formal contract agreement should be executed and signed for any goods or service contract exceeding Sri Lanka Rupees 500,000 in terms of Guideline 8.9.1 (b) of the Government Procurement Guidelines. Nevertheless, contract agreements had not been entered into when purchasing vehicle spare parts totalled Rs.15,064,960 exceeding the limit of Rs.500,000 in 05 instances.
- (ii) Tyres valued at Rs.2,312,353 had been purchased without calling bids according to National Competitive Bidding Procedure contrary to the Guideline 3.2.1 of the Government Procurement Guidelines.
- (iii) Even though the requirement was 06 Bush Upper Arms, 06 Full Upper Arms had been purchased to the value of Rs.164,010 from Mitsubishi Agents despite 16 Full Upper Arms made available in the stores.

(iv) A register had not been maintained to record the old tyres in the Mechanical Engineering Section and a methodology had been followed to compute the amount of tyres remained and produced to the auction. Therefore, it could not be ascertained whether the old tyres of the vehicles had been handed over to the stores for the new tyres issued by the stores and the old tyres had been auctioned.

**(g) Development of Server Computer System of the Information Technology Section**

The above contract had been awarded to a private institution to the value of Rs.13,333,499 on 17 January 2014 and the contract period had been extended to another 30 days on the request of that company. Accordingly the supplies should be made on 26 March 2016. However, the supplies had been made on 06 May 2016 with a delay of another 41 days. The following observations are made in this connection.

(i) Despite 41 days had delayed for above procurement, 02 server computers had been purchased for Stamp Bureau from above company on repeat order basis.

(ii) Even though these machines should be supplied on or before 15 August 2014, the above procurement had also been failed to complete at the scheduled date. Due to non- entering into an agreement for the above procurement, the liquidated damages for delayed period had not been recovered.

**(h) Purchase of 400 Letter Scales**

Four hundred Letter Scales had been purchased to the value of Rs.4,928,000 in the year under review. Even though in terms of Guideline 3.2.1 of the Government Procurement Guidelines the bids should be called according to the National Competitive Bidding Procedure, the bids had been called by the Department from 10 institutions only. An agreement also had not been entered into with the supplying institution.

(i) **Purchase of 80 Desktop Computers**

When purchasing 80 Desktop Computers to the value of Rs.9,445,360, the quotations had been obtained from one institution directly without calling open quotations in terms of Guideline 1.2.1 (c) of the Government Procurement Guidelines and an agreement had not been entered into as well. Only one computer had been checked with the specifications out of the computers purchased. The computer so checked was not complied with the specifications in 3 times.

(j) **Construction of a New Building for Post Office, Madurankuliya**

The contract had been awarded by the District Secretary, Puttalam to a bidder to construct the above building at Rs.8,317,294 with Value Added Tax.

The following observations are made in this connection.

(i) A sum of Rs.8,317,294 comprising Rs.5 million and Rs.3,317,294 had been paid by the Department before awarding the contract to the District Secretary, Puttalam on 11 September 2011 and 15 December 2011 respectively. According to the agreement, the constructions of the building should be completed and handed over to the Department of Post on 24 August 2012. But constructions of the Post Office building had not been completed and handed over to the Department of Post even by 05 September 2014. Accordingly in terms of the agreement a sum of Rs.2,758,759 should be recovered from the contractor as liquidated damages at the rate of Rs.3,713 per day from 24 August 2012 to 05 September 2014.

(ii) The Post Master General had informed the District Secretary on 14 September 2012 to construct counters without laying granite. Nevertheless, a sum of Rs.423,558 had been paid to the District Secretary over the agreed amount including Rs.143,870 for laying granite also, when payments made for extra works.

(k) **Construction of a New Building for Post Office, Waikkala**

According to the agreement entered into between District Secretary, Puttalam and the contractor for construction of a new building for post office, Waikkala, the work should be commenced on 23 November 2011 and completed on 31 January 2012. However, the work had been commenced on 31 January 2012. The following observations are made in this connection.

- (i) A sum of Rs.8,790,490 comprising Rs.5,000,000 and Rs.3,790,490 had been paid by the Department of Post to the District Secretary, Puttalam on 21 September 2011 and 15 December 2011 respectively before commencing the work. Even though the work of the building had been completed on 23 March 2014, the payments had been made without deducting the liquidated damages of Rs.2,625,156 for the delayed period at the rate of Rs.3,924 per day.
- (ii) Even though the validity date of the security bond furnished by the contractor was mentioned as 20 June 2012 it was not ensured in audit whether the security bond had been extended according to the date which completed the works.
- (iii) Even though the contractor had agreed to allow 7 per cent discount of Rs.590,758 in this construction, the payments had been made to the contractor without considering that discount.
- (iv) Even though according to the estimate of the District Engineer, the value of the construction of the building was Rs.7,429,450, the total payments made with the additional work had been Rs.10,788,892.

**(l) Construction of Ella Post Office**

The work of the above constructions had been given to the District Secretary, Badulla on 17 January 2011 and an engineering estimate amounting to Rs.12,028,158 had been submitted thereon. According to the bid furnished by the contractor, the value of the contract with the Value Added Tax amounted to Rs.9,709,562. Subsequently that contract value had been revised as Rs.9,090,368. But, this revision had not been informed by the District Secretary to the contractor.

Even though the constructions should be completed by 13 June 2012, the period had been extended up to 15 March 2015 from time to time. However, the work had been stopped on 23 July 2013 when the progress of the work was at 55 per cent. The total value amounting to Rs.9,709,562 had been released by the Department of Post to the District Secretary even as at that time and a sum of Rs.2,318,591 had been released on 12 December 2013 after that date as well. Accordingly, it was released an amount equal to total engineering estimate. In this context contractor had shown a requirement to construct a retaining wall and its engineering estimate had been Rs.1,816,839. However, that retaining wall also had not been constructed.

**(m) Construction of Dombagahawela Post Office**

Bids had been called from 10 institutions for constructions of Dombagahawela Post Office contrary to the Guideline 3.2.1 of the Government Procurement Guidelines and the contract had been awarded to the institute who submitted the lowest bid to the value of Rs.6,890,510 with Value Added Tax.

According to the agreement, the constructions should be commenced on 01 July 2011 and completed on 31 January 2012. Nevertheless, the constructions had been commenced on 24 September 2011 and completed and the building had been handed over on 23 May 2014. A sum of Rs.689,051 had not been deducted from the payments made to the contractor as liquidated damages for a delayed period of 842 days in terms of the agreement.

#### **4.10 Losses and Damage**

A sum of Rs.9,362,929 had been shown in the Appropriation Account as losses and damage to be written off further as at 31 December 2014. It included the losses and damage brought forward from the year 1980. The Department had failed either to recover or write off that losses and damage in terms of the Financial Regulations even by 31 December 2014.

#### **4.11 Management Weaknesses**

The following weaknesses were observed during course of audit test checks.

##### **(a) Money Order Service Account – 2013**

The following observations are made.

- (i) The differences of Rs.4,957,288,768, Rs.3,589,486,834 and Rs.20,160,650 were observed in respect of issuing money orders, payments of money orders and commission of money orders between the balances obtained by computer software of the Department and the Reconciliation Statements of the Money Order Account. Due to these differences the Reconciliation Statements of the Money Order Account for the year under review as well had been prepared using accounts summaries prepared according to the District Accounts Summaries and Monthly Accounts Summaries of Money Orders reported to the Treasury by the Book Keeping Section.
- (ii) Due to not-reporting the details of the journal entries made for corrections of entries as at 31 December 2013, differences of Rs.1,698,025,917 and Rs.1,563,578,271 were observed in the payments of money orders and issues of money orders respectively when comparing the balance of the book keeping section.

##### **(b) Fraud in the Foreign Parcels Section of the Central Mail Exchange**

Three suspected parcels which received to the country from Dubai on 03 May 2014 had been stopped and handed over to the Air mail stores No.1 on 03 May 2014. The Post Master General had given orders to commence investigations thereon on 08 August 2014 after a delay of 03 months. Accordingly, one parcel

had been opened on 08 August 2014 and two other parcels had been opened on 28 August 2014 after 20 days. The following observations are made in this connection.

- (i) It was revealed that several officers and the employees of the Foreign Parcels Section of the Central Mail Exchange had done this irregularity and it was revealed through investigations that these type of irregularities had been happened earlier as well. The deploying of employees in same place and attached to the same duty for a long time was the main reason for these type of irregularities.
- (ii) Five employees were interdicted with the half pay salary after accepting that it could not be done without a knowledge of the officers and the employees who worked in the stores for removing things from the parcels and some other things insert into the parcels. However, they were re-instated into the other Sections of the Central Mail Exchange by 13 March 2015.
- (iii) Even though nearly one year had elapsed for charges of these allegations of four officers and employees charged for this fraud and released from the custody on bail at present and the above charges made against 09 persons including above mentioned 05 persons, the Department had not issued even a charge sheet even by 30 April 2015.

(c) **Performance of the Investigations**

Even though it was requested by the letter dated 19 January 2015, the particulars relating to the investigations in progress and the information of investigations completed in the year 2014 from the Controller – Investigation, the Controller - Investigations had informed that the particulars are not made available.



The following observations are made in this connection.

- (i) Due to non-submission of the dates of each investigation which handed over to the Controller - Investigation Section, it could not be come to a conclusion relating to the delays of the balance investigations as at 01 January 2014.
- (ii) Number of preliminary investigations as at 01 January 2014 amounted to 2,202 and number of investigation reports received during the year 2014 amounted to 1,138. The number of investigations completed during the year amounted to 737 and as such 2,603 files had remained for preliminary investigations as at 31 December 2014. Accordingly, the overall progress of the completion of preliminary investigations during the year 2014 had been 22 per cent. In examining the progress of preliminary investigations in each division separately it was reported the progress of the Controller - Investigation Section had been 6 per cent and the progress of other divisions ranging from 9 per cent to 47 per cent.
- (iii) Thirty eight files had remained to examine as at 01 January 2014 and 16 files received during the year 2014 were observed in examination of the progress of the formal disciplinary enquires. Number of files completed during the year amounted to 09 only, as such 45 files had remained to complete enquiries. Accordingly, the overall progress of the formal disciplinary enquiries had been 17 per cent. In examination of the progress of formal disciplinary enquiries of each division no progress was observed in the Division of Controller - Investigation and in the Western, North Central and Eastern Provinces. The progress of other divisions had ranged from 22 per cent to 50 per cent.
- (iv) Even though the approved cadre of the Enquiring Officers of the Department of Post had been 51, the vacancies had been 18. The vacancies of the officers also had affected to the decrease of the progress of the enquiries.

#### 4.12 Human Resources Management

##### (a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2014 had been as follows.

	<b>Category of Employees</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Number of Vacancies</b>
	-----	-----	-----	-----
(i)	Senior Level	121	82	39
(ii)	Tertiary Level	147	61	86
(iii)	Secondary Level	8,854	7,336	1,518
(iv)	Primary Level	17,659	16,929	730
		-----	-----	-----
	Total	26,781	24,408	2,373
		=====	=====	=====

The following observation is made.

The Department had failed to fill 2,373 vacancies as at the end of the year under review.

##### (b) Particulars of the Cadre and Payment of Salaries

The following observations are made.

(i) Even though the possibility to obtain the details of all employees employed in offices, post offices, sub-post offices throughout the island should be with the Administration Division of the Postal Head Quarters, such a possibility was not observed.

(ii) Even though it was prepared and furnished the particulars of the officers attached to the Postal Head Quarters those particulars also had not been updated.

##### (c) Payments of Salaries to the Officers Transferred on Station Transfers

The salaries of a driver who transferred to the Ministry of Buddha Sasana on 16 August 2012 had been paid by the Department of Post.