

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Posts for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 including my comments and observations on the financial statements of the Department of Posts was issued to the Accounting Officer on 21 May 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Department in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 01 September 2021. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements, give a true and fair view of the financial position of the Department of Posts as at 31 December 2020, 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 (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 Chief Accounting Officer and the Accounting Officer for the 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 such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Department 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department of Posts exists, 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 report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by on the financial statements relating to the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Position

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) According to the Comptroller General of the Treasury and the financial statements, differences of Rs. 62,399,823, Rs. 38,770,000 Rs. 40,950,210, and Rs. 10,783,801 existed in the opening balances of unfinished works, transport equipment, other machinery, and leased vehicles respectively.	The audit observation is accepted. The balances of assets shown under the Comptroller General will be taken into consideration when preparing the financial statements for the year 2021.	The balance of non-financial assets should be reconciled with the books of the Department and Treasury books.
(b) According to the Treasury books and financial statements, a difference of Rs. 304,582 was observed in the closing balances of other machines and equipment.	Although the audit observation is correct, the financial statements were prepared using the balances of assets in accordance with Treasury printouts after the summary of final supplementary accounts were presented to the Treasury. Those values were correct as per the books of the Department. When presenting the printouts of the Treasury, balances of assets were altered without the Department being informed by the Treasury verbally or in writing. An assignment sheet was again	The balance of non-financial assets should be reconciled with the books of the Department and Treasury books.

presented to the Treasury on 2021.03.08 in order to adjust the value of Rs. 304,583 to the Treasury books.

1.6.2 Reconciliation Statement on the Advances to Public Officers Account

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Unidentified differences totaling Rs. 2,812,091 were observed at 02 district accounting offices between the total of the individual loan balances and the balance of the control account. A financial fraud involving a sum of Rs. 1,295,400 continued to exist over a period of 08 years at a district accounting office was also attributable thereto.	The difference of Rs. 1,900,030 at the district accounting office in Anuradhapura is being investigated. A sum of Rs. 149,550 was recovered from the pension gratuity with respect to the financial fraud occurred at the accounting office in Kalutara. Accounting errors were corrected by Rs. 4,612 in cash. The sum of Rs. 20,857 recovered in excess from the officers of the Kandy office was settled by 2021.04.20.	The total of the individual balances should be equal to the balance of the control account.

1.6.3 Unapproved Transactions

Receipt of Revenue

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Approval had been received only on repayments made in cash and correction of errors valued at Rs. 11,982,166 and Rs. 2,406,345 Respectively.	As for the unapproved sum of Rs. 10,491,913, the international accounting division had debited a sum in cash, and due to devaluation of rupee, a sum of Rs. 7,251,846 had been resulted in during the year; hence, the balance sum of Rs. 3,241,067 indicated the corrections made by the district accounting offices through cross entries during the year.	Approval should be obtained on all the repayments and correction of errors.

1.6.4 Non-maintenance of Books and Registers

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Records of liabilities had not been maintained in terms of Financial Regulation 214.	Updating process is in progress.	Records of liabilities should be regularly examined as mentioned in Financial Regulation 214.
(b) A Register of Counterfoil Books had not been maintained in terms of Financial Regulation 341.	- Do.	A Register of Counterfoil Books should be maintained on Form G.A. – N20 in terms of Financial Regulation 341.
(c) Inventories of Electrical Fittings had not been maintained in terms of Financial Regulation 454(2).	- Do	Inventories of all electrical fittings and equipment of Government buildings should be maintained in terms of Financial Regulation 454(2).

2. Financial Review

2.1 Management of Imprests

Audit Observation	Comment of the Accounting Officer	Recommendation
The unsettled balance of imprests totaled Rs. 367,525,560 as at 31 December 2020.	Imprests should be settled to the Treasury on time. However, payments should be done by the post offices on 01 January, and as such, the total amount as at 31 January can not be settled to the Treasury. A sum, in agreement with the Treasury, is retained for making payments on 01 January, and added to the opening balance of the imprest account for this year through journal entries.	Imprests should be settled in terms of Financial Regulation 365.

2.2 Revenue Management

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The revenue of Rs. 809,795 received in the year under review from buildings, circuit bungalows, or holiday resorts pertaining to the revenue code on the lease rent income for buildings and houses of the Government, should be remitted to the Secretary to the Ministry of Public Administration. But that amount had been credited to the revenue of the Postmaster General.	As the Department of Posts incurs all the expenses on, renovation, repairs, and maintenance of holiday resorts, and payments made to the staff, it is informed that it had not been so done as mentioned in the observation.	Revenue should be correctly identified, and brought to accounts accordingly.
(b) The balances of outstanding revenue relating to the period from the year 2017 to 2020, totaled Rs. 95,731,166.	Factors attributed to this included : revenue should be collected in accordance with accounting regulations of the international association of posts, delays caused by the Covid -19 pandemic, and a fire that broke out at a business premises. Action has already been taken to recover the outstanding postal revenue in installments.	Action should be taken expeditiously to recover the outstanding revenue.

2.3 Management of Expenditure

Audit Observation	Comment of the Accounting Officer	Recommendation
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As 05 capital Objects and 04 recurrent Objects had been overprovisioned, there existed a saving of Rs. 214,266,500 which was equivalent to 25 – 97 per cent.	It is kindly informed that this was attributable to foreign trips being suspended due to Covid 19, delays in procurements, delays in constructions, lack of training programs, and restrictions on budgetary provision.	Annual estimates of expenditure should be prepared accurately.

2.4 Certification of the Accounting Officer

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>According to the provisions in Section 38 of the National Audit Act, No. 19 of 2018, the Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department, and carry out periodic reviews to monitor the effectiveness of such systems, and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.</p>	<p>Accepted. It is kindly informed that 08 measures were taken to ensure an effective internal control system for the financial control. It is also informed that action will be taken to apprise the Auditor General of the measures taken to revise the internal control system following the decisions taken to ensure effective financial control.</p>	<p>Provisions in Section 38 of the National Audit Act, No. 19 of 2018 should be followed.</p>

2.5 Reconciliation Statement on the Advances to Public Officers Account

Audit Observation	Comment of the Accounting Officer	Recommendation
<p>Except for the officers currently in service, the total of the loan balances belonging to the officers who had vacated the service, been transferred, deceased, retired, or interdicted, amounted to Rs. 56,821,051 including the other unsettled loan balances, and a loan balance of Rs. 23,702,101 continued to exist over 05 years.</p>	<p>Loan balances of the retired officers will be settled once provision is received from the Department of Pensions. Recovery of loan balances remains inconclusive due to lack of investigation officers and the process takes longer periods for completion. Action is taken to recover the loan balances of interdicted officers and those</p>	<p>Loan balances should be settled promptly.</p>

who had vacated their services from the guarantors. A sum of Rs. 146,791 out of the loan balances continued to exist over 05 years, had been recovered by March 2021. Action is being taken to either recover or write off the remaining balances.

2.6 Non-compliances with Laws, Rules and Regulations

Reference to Laws, Rules, and Regulations	Value	Non-compliance	Comment of the Accounting Officer	Recommendation
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	Rs.			
(a) Section 4.5 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	15,776,735	When loan balances receivable to the Government can not be recovered, such balances should be recovered from the guarantor, but loan balances existed over 05 years.	All the officers have been informed through letters that action be taken to recover loan balances from the guarantors where possible. There existed loan balances without guarantors. Some of the officers have not responded to our letters. Several officers have agreed to pay the amount in full or installments, thus making payments as of present.	The Establishments Code should be followed.

(b) Financial Regulation 110 and 102.	4,584,188	The loss sustained in 35 vehicle accidents shown in the financial statements, had not been included in the Register of Losses and Damages.	Details on the accidents relating to the year 2020, have not so far been sent to the transport division of posts by the mechanical engineering division. As such, repair works on accidents of the year 2020, and settlement of insurance indemnities, have not yet been concluded.	Financial Regulation 110 and 102 should be followed.
(c) Treasury Circular, No. 3/2018 dated 26 July 2018.	-	Action had not been taken in terms of the Circular on a dormant account of the Department.	Action necessary for closing the Account No. 045-1001-1-9027341 is being taken in coordination with the Department of Treasury Operations.	The Circular should be followed.
(d) Guideline 5.3.1 of the Government Procurement Guidelines.	(d) 5,254,686	Bid documents should be vetted and approved by the Technical Evaluation Committee and the Procurement Committee. However, it had not been so done with respect to the procurement of air conditioners and tyres.	The shopping method was followed on this procurement. It is informed that Guideline 5.3.1 (d) of the Government Procurement Guidelines will be followed hereinafter.	The Government Procurement Guidelines should be followed.

2.7 Operating Bank Accounts

Audit Observation	Comment of the Accounting Officer	Recommendation
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The unidentified payments valued at Rs. 50,000 continued to exist from the year 2008 with respect to the bank account, No. 9027330 maintained by the Head Office, could not be identified even by 31 December 2020.	The Department of State Accounts was queried in that connection, and the Department informed us that Financial Regulation 486 (4) be followed. As such, letters have been sent to the Central Mail Exchange that observations and recommendations be given by appointing a committee.	The unidentified payments should be identified thus taking suitable action.

3. Operating Review

3.1 Losses and Damages

Audit Observation	Comment of the Accounting Officer	Recommendation
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Action had not been taken either to write off or recover the losses and damages valued at Rs. 14,171,700 pertaining to a period of 05-10 years shown in the statement of losses and omissions.	In order to write off losses at 03 post offices, files have been sent for correcting deficiencies. Writing off losses and damages at 03 post offices have been approved. As certain losses included financial frauds and thefts, legal cases and inquiries thereon have not yet been concluded thus causing delays in writing off the losses.	Measures suitable for losses and damages should be taken.

3.2 Management Inefficiencies

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) A service agreement had been entered into with the Ceylon Electricity Board for maintenance of the 500 Kilo	The Ceylon Electricity Board was informed several times, but they did not visit for services.	Services should be done in accordance with the service agreement.

Watt generator over a period of 06 months in 2020. Nevertheless, no service was carried out .

- (b) The Department of Valuation had not been requested to assess 06 post office buildings owned by the Department, and 12 post offices had not been assessed due to non-availability of plans. Only the plans and transfer certificates existed for the post offices in Dolosbage, Divuldamana, Malwatta, Nelum Wewa, Wathurawa, and Gonawila, and they had been sent for assessment on 2020.09.07. Those post offices and sub-post offices taken over by the Department in the year 2019 were Government buildings. due to non-availability of building plans, action is being taken to prepare the plans again. Furthermore, letters had been sent on 2019.09.03 to the regional offices of the superintendent of posts informing that plans of the post offices and sup-post offices by presented. Such activities are taking place. Action should be taken to assess all the buildings belonging to the Department.
- (c) Even though a sum of Rs. 762,480 had been spent in the year under review to survey and take over the lands of 16 post offices and sup-post offices, acquisition of those lands had not been completed even by 15 March 2021. This happened as surveys could not be done on time due to prevalence of Covid 19 in the previous year although payments had been made to the Department of Surveys. Instructions have been given to expedite the surveys. Lands should be taken over expeditiously.
- (d) It was found in the comparison of information obtained from the Department of Posts and the Department of Motor Traffic relating to the vehicles registered under Post Master General that the Department did not possess information on 87 vehicles. The bus Information was found only on 20 of the 87 vehicles registered during the period 1956 – 2001. The Department did not possess information on the other vehicles, and only a verification relating to the ownership of other vehicles had been given by the Department of Motor Traffic. Three vehicles received The Department should possess accurate information on the vehicles registered under the Department of Posts.

under the registration number 60 ආ 7256 had been withdrawn from use, but no further action had been taken in that connection.

temporarily had been returned to the respective Ministry on 2020.09.03.

The Department of Valuation refused to assess the vehicle as the chassis number did not tally. As such, the vehicle could not be disposed.

- (e) According to the report of the Board of Survey, there existed an excess number of 41 stamps worth Rs. 379,187, and a shortage of 250 stamps worth Rs. 590,430 between the stock registers and the physically available stamps.
- Excesses and shortages relating to stocks of stamps that 08 officers had been responsible for, existed as at 21 December 2020. Instructions have already been given to solve such issues. Due to restrictions on travelling, delays have occurred as many of those officers were residing outside the Western Province. Action will be taken to inform the Audit once the process is completed.
- An internal system of control should be established to avoid shortages and excesses.
- (f) The stock of stamp-printed stationeries worth Rs. 1,782,317 which was not in use and not suitable for sale, existed over an extensive period at the stores of the stamp division in Narahenpita by the end of the year under review, but no action had been taken in that connection as per Financial Regulation 350(4).
- A Committee comprising members from the Treasury has been appointed to take action in terms of Financial Regulation 350 (4) on the said stock of stamp-printed stationeries worth Rs. 1,782,317. Once the final report is furnished by the Committee, action will be taken in accordance with Financial Regulation 350 (4).
- Action should be taken in terms of Financial Regulations.
- (g) A shortage of stamps worth Rs. 2,476,800 existed by the end of the year under review between the physical balance and the stamp control ledger of the stamp division in Narahenpita.
- Those shortages had occurred on several occasions. As this was queried in every year by the Board of Survey of the Treasury, the Head of investigations was ordered to conduct an investigation in that connection. According to the report of investigation, those shortages had occurred from time to time since the year 1984, and it was not
- The stocks mentioned in the registers should be tallied with the physical stocks.

revealed that officers of the Department had involved therein. Furthermore, such shortages had not been the results of frauds or thefts, but had occurred in the counting process. As those stamps had been printed more than 10 years ago, no recoveries could be made from the relevant printer, thus recommending to write off the shortages. All the necessary action is being taken in that connection.

4. Human Resource Management

 The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) A number of 1,965 vacancies existed in the other grades and services of the Department of Posts including 61 vacancies in the senior level. action had not been taken either to fill those vacancies or revise the approved cadre.	This was attributable to the reasons such as, non-approval of the Public Service Commission, lack of qualified officers, and legal cases. Three officers have been recruited to three posts in the senior level. the Scheme of Recruitment is being revised to make recruitments to the vacancies in tertiary level. Approval was received to make recruitments to the vacancies in secondary level, and although action was taken in that connection, the process has been halted following instructions from the Secretary to the Ministry of Mass Media. Action is being taken to fill the other vacancies. A Sub Post Master is assigned to the posts of Sub Post Master in acting capacity. Action is being taken to fill vacancies in the primary level.	Vacancies should be filled thereby ensuring efficiency and productivity of the Department.

- (b) Approval had been given through the Letter, No. DMS/1139/VI of the Director General of the Department of Management Services dated 07 July 2016 to increase the number of posts of Assistant Superintendent of Posts by 106. However, those vacancies could not be filled.
- The Scheme of Recruitment for 106 posts of the Grade MN-07 for which approval had been granted by the Department of Management Services, is to be revised. Action necessary in that connection is being taken.
- Recruitments to the essential posts should be made expeditiously.