

Head 308 - Department of Posts

1. Financial Statements

1.1 Qualified Opinion

Head 308 -The audit of the financial statements of the Department of Posts for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Department of Posts was issued to the Accounting Officer on 04 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 29 May 2023 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of the financial position of the Department as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

My opinion is qualified based on the matters appear in Paragraph 1.6 of this report.

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

1.3 Responsibilities of the Chief Accounting Officer and Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Accounting Officer.

As per 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.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of 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 exercised professional judgment and maintain professional skepticism 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 its internal control.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- 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 Chief Accounting Officer /Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements are consistent with those of the preceding year.
- (b) The recommendations made by me regarding the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

Capital Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
The total of individual debt balances of 03 Regional Accounts Offices was not equal to the balance of control accounts and actions had not been taken to identify that negative balance of Rs. 2,111,326 and correct.	The differences in Kandy, Narahenpita Regional Accounts Offices have been recognized and it will be rectified in the year 2023 and it is informed that the necessary arrangements will be made to check the differences in Anuradhapura, Kalutara and Colombo South Regional Accounts Offices and correct them in the future.	Difference should be identified and corrected.

2. Financial Review

2.1 Revenue Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although revenue estimates and revised revenue estimates should be prepared in a realistic and accurate manner in terms of F.R. 85(1) and F.R. 85(2) of the Democratic Socialist Republic of Sri Lanka, the favorable variance in 31 revenue categories of the Department	Revision of postal charges, inflationary situation in the country, increase in foreign exchange rate, increase in service charges compared to increase in electricity charges in the year 2022, increase in consumer confidence had been mentioned as the reasons for favorable variance. The closure of some institutions that	Revenue estimates should be prepared in a realistic and accurate manner.

had ranged from Rs.109,140 to Rs.214,474,405 and the adverse variance in 17 revenue categories had ranged from Rs.150,636 to Rs. 399,601,545.

received services due to the Corona epidemic situation, carrying out the services by institutions using alternative media with the scarce of paper had been shown as reasons for the adverse variance.

- (b) Six revenue categories had decreased for more than 35 per cent as compared to the preceding year when reconciling the actual revenue of the year under review with the preceding year.

Decrease of returning of foreign parcels, the inability to get the income during the year due to the failure of signing of agreements with the Department of Examination promptly, incursion of the income of Rs. 10,537,178 related to the year 2020 in the income of the year 2021 due to a development work done in the Information Technology System, decrease of Business Reply Coupon Revenue due to drop of tourist arrivals, decrease of using of Hybrid Tele Mail, shifting of customers for other options and decrease in service fee income as insurance transactions were not done through mail windows and decrease of using of pharmaceuticals order services through mail after removing travel restrictions have been mentioned as the reasons for the decrease of income.

Actions should be taken to increase the revenue.

- (c) The balance of outstanding income, which has been remaining for more than a year, was Rs. 93,411,706 at the end of the year under review and the Department had failed to recover those revenues during the year under review. Out of which, a sum of Rs. 75,243,443 was an arrears remaining from the year 2019 and the years before that and a time analysis for that had not been submitted to the audit.

Actions are being taken to collect the arrears of revenue under express mail facility systematically through bank deposits and securities by issuing reminders to government agencies which had availed the services under free postal facility. International postal arrears consists of accumulated arrears up to 31 December 2019 by adding up the arrears balances of several previous years. In preparing the annual accounts, those outstanding balances are carried forward and as these accounting activities are not functioned by any computerized or other system and also the accounting from the year

Every possible effort should be made to recover the arrears of income and a time analysis should be prepared.

2022 will be included in the computerized excel sheet software prepared by the International Accounts Division, it is kindly informed that, an analysis report will be provided from 2023 onwards.

- (d) Even though the Department had submitted arrears of income reports to the overseas postal administrative agencies on 31 December 2022, as a result of failure of approving of revenue reports by those institutions, the arrears of income which had ranged from 01 to 09 years was Rs. 485,956,641. The Department had not made sufficient influence to recover the arrears and to carry out an inquiry into the reasons for the failure of approving the arrears of income.

Although the accounts should be approved or revised or rejected and sent within 02 months of submitting the accounts to the overseas postal administrative agencies, and also timely reminders have been sent to some postal administrative agencies, there are income balances which were not so approved.

The reasons for the failure of approving of foreign postal administration institutions income should be found.

2.2 Expenditure Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Due to over provisions made, a total of Rs. 254,420,910 of 07 recurrent expenditure objects and 07 capital expenditure objects had been saved and it had ranged from 14 per cent to 99 per cent .	Restrictions for travel expenses, non-supply of uniforms by suppliers, non-submission of service contracts until the end of the year, control of expenses, non-purchase of vehicles based on government policies and decisions and suspension of providing of property loans by banks, strict restrictions of capital expenditure, economic crisis in the country though the contract for the construction of the project was offered, refusing of the contract by the contractor, due to the shortage of raw materials and insufficient time, absence of the	Estimates should be prepared accurately as per the Financial Regulation 50 .

supplier for signing agreement even by the end of the year 2022 though the Letter of Acceptance was issued to the supplier had been mentioned as the reasons for the savings of provisions.

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| <p>(b) The provision in 2 expenditure objects where allocations had been transferred under Finance Regulation 66 amounted to Rs. 21,617,958 had been saved.</p> | <p>Failure of delivering of uniforms by suppliers, non-submission of service contract by the end of the year had been mentioned as the reasons for the savings of provisions.</p> | <p>The requirement should be identified as accurately as possible while transferring the provisions in terms of Financial Regulation 66 .</p> |
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2.3 Entered into Commitments and Liabilities

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Commitments and liabilities pertaining to the year under review amounted to Rs. 16,035,709 had not been identified in the financial statements.</p>	<p>It was not included in the financial statements by a mistake.</p>	<p>All liabilities should be disclosed in the financial statements.</p>
<p>(b) Commitments and Liabilities as at 31 December 2022 amounting to Rs. 250,276 had not been shown in the financial statements as per information obtained from Regional Accounts Offices.</p>	<p>The vouchers that could not be paid were unable to enter as liabilities in the cigas programme by a mistake and it is kindly informed that the relevant officers have been informed to carry out the activities accurately in the future.</p>	<p>All liabilities should be properly identified.</p>

2.4 Certifications to be made by the Accounting Officer

Even though it was required to certify the following matters by the Accounting Officer as per the provisions of Section 38 of the National Audit Act No. 19 of 2018, actions had not been taken accordingly.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the State Ministry and necessary changes should be made to ensure that the system runs efficiently by carrying out reviews on the effectiveness of that system and although those reviews should be made in writing and a copy submitted to the Auditor General, the statements that such reviews were carried out, had not been submitted to the audit.</p>	<p>It is kindly informed that the actions will be taken to provide a copy in future.</p>	<p>It should act in accordance with the provisions in the Section 38 of National Audit Act No. 19 of 2018.</p>

2.5 Non- compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions of laws, rules and regulations observed in audit test checks carried out are analyzed below.

Reference to the Laws, Rules, Regulations etc.	Audit Observation		Comments of the Accounting Officer	Recommendation
	Value Rs.	Non-compliance		
(a) Sections 4.2.5, 4.4 and 4.5 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka		<p>Even though the balance receivable from suspended, retired, left the service, deceased and 935 other employees at the end of the year under review was Rs. 52,265,482 including Rs.21,117,666 for more than 05 years, actions had not been taken as per the Establishments Code.</p>	<p>Related activities are being done to recover those loan balances by now.</p>	<p>Actions should be taken in terms of Sections 4.2.5, 4.4 and 4.5 of Chapter XXIV of the Establishments Code.</p>

(b)	Sections 6(1) and 6(2) of the Post Office Security Fund Ordinance No. 01 of 1938 as amended by the Ordinance 1978	144,334	A sum of Rs. 144,334 had been paid in several instances in contrary to the Act .	It is kindly informed that the actions will be taken to correct the existing deficiencies by including necessary provisions for this purpose in the proposed Security Ordinance amendment proceedings and the amount exceeded the phone expenditure limit was settled from the Security Fund with the approval of the Post Master General and the two officers were employed on contract basis as approved by the Governing Board of the Fund.	Actions should be taken in accordance with the provisions of the Fund.
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2.6 Deposit Balances

Audit Observation	Comments of the Accounting Officer	Recommendation
Actions had not been taken to identify the receipts directly credited to the bank amounting to Rs . 5,651,599to the relevant revenue and account for.	It is kindly informed that the actions will be taken to account under the relevant Revenue Codes as soon as these amounts are identified.	Actions should be taken to identify the revenue accurately and accounted for.

3. Operating Review

3.1 Failure to Perform Roles

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Ten projects which were not included in the Action Plan of 2022 had been implemented during the year 2022 .	Comments have been made regarding the Procurement Plan.	Actions should be taken as per the Action Plan.
(b) A sum of Rs. 100 million had been allocated as financial provisions for the Construction Project of Batticaloa Postal Complex. Even though the physical progress and financial progress thereon had been stated as 90 per cent and 99.31 per cent respectively as at 31 December 2022, nine tasks belonging to the project had not been completed.	Due to the delay in purchases, shortage of construction materials like cement and rise in foreign exchange in the view of the Covid epidemic in the country and in the face of the economic crisis in the country, it was impossible to complete the construction during the relevant period. A Memorandum of Cabinet of Ministers has been submitted to obtain the approval for an additional estimate.	Actions should be taken as per the Action Plan.

3.2 Delays in Execution of Projects

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) An amount of Rs. 343,739,916 with Value Added Tax had been estimated for the construction of Batticaloa Postal Complex and an agreement had been entered into on 08 May 2019 to carry out the construction by the Central Consultancy Engineering Bureau. The following matters were observed during the examination carried out on this construction.		

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| <p>(i) The Department had not made available the provisions for the consultancy service fees for this construction and consultation fee of Rs. 8,079,172 had been paid by 31 December 2022 through the provisions made for the construction.</p> | <p>The consultation fee in relation to the construction of the Batticaloa Postal Complex has not been reserved in advance.</p> | <p>The provisions should be made available for the relevant expenditure by the Department .</p> |
| <p>(ii) Although the construction was scheduled to be completed by 12 March 2021 as per 8.2 of the Contract Agreement, dates were extended on 03 occasions. Accordingly, even though this contract should be completed by 19 December 2022, it had not been completed until 15 February 2023 an extension of contract period had not been made.</p> | <p>It could not be completed within the relevant period at the estimated cost due to the inability to continue construction, police curfew in a background where the country was closed due to the situation of the Covid epidemic in the country and delay in purchases, shortage of construction materials like cement, rise in foreign exchange and high cost of construction materials in view of the economic crisis in the country.</p> | <p>Arrangements should be made to complete the contract on the due dates.</p> |
| <p>(iii) The Central Construction Engineering Bureau had submitted on 13 January 2023 for obtaining the approval of Cabinet of Ministers for the project to complete the construction works under an additional estimate of Rs. 216,577,994 . However, the approval of the Cabinet of Ministers was not received even by 15 February 2023 .</p> | <p>Although a draft Memorandum of Cabinet of Ministers dated 12 January 2023 was submitted, it is kindly informed that the approval has not been received so far.</p> | <p>Follow ups should be carried out as much as possible.</p> |

3.3 Procurements

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The following observations were made in the examination of purchasing of 60 postal printers at Rs. 36,954,900 for the Department of Posts by Rs. 615,915 per each .		
(i) The advertisements were published in Dinamina, Daily News and Thinakaran newspapers owned by Associated News Paper Company Limited on 05 November 2021 and point 3(b) under eligibility parameters of the advertisement published in Dinamina newspaper was different from point 3(b) in Daily News and Thinakaran newspapers.	The Invitation to Bid prepared in English Medium by the Procurement Division shall be forwarded to the Associated News Papers Company Limited and it is informed that the Associated News Paper Company has translated the bid invitation into Sinhala and Tamil media and published the advertisements.	Supervision should be increased.
(ii) Even though the Procurement Committee held on 23 November 2021 had approved to extend the period from 31 January 2022 to 60 days to 90 days and also more than 01 years had elapsed up to 15 February 2023, the respective supplier had supplied only 10 postal stamps machines to the Department. The rest of the machines had not been received even up to April 2023.	It is kindly informed that it has decided to make the supply according to the prices mentioned in the agreement entered into by both parties and not to release the performance bond if the respective institution does not agree to that regarding the procurement of the remaining 50 postal stamps machines.	The requirements should be met without causing loss to the government.

- (iii) Although it was mentioned that the training programs will be conducted for a group of 60 persons by 01 March 2022 as per the Purchase Order, It is kindly informed that a training programme were not conducted so far. Arrangements should be made to conduct training programmes as per the necessity.
- (b) The Department had published newspaper advertisements to purchase 450 desktop computers, 450 UPS and 08 laptop computers on 18 October 2021 at a cost of Rs. 151,632 .Due to the errors in that advertisement and other procurement related advertisement and it had to advertise again in a newspaper to remove the words “internationally accepted” from those advertisements, a sum of Rs.59,413 had been spent in addition.During the submission of bid documents, 02 institutions had submitted a letter stating that there was a mutual understanding agreement between the 02 institutions.Although it had been asked from Department of Public Finance about it, the letter sent by that Department regarding that was not available in the file.Based on that letter, the bids of those institutions had been rejected by the Technical Evaluation Committee. Because of the letter sent by the Department of Public Finance was not available in the file, the audit could not be carried out accordingly. It is informed that a revised procurement notice has been published to avoid practical inconvenience in selecting a supplier as per the procurement notice. Newspaper advertisements should be published so that all the requirements are fulfilled. Procurement Guideline should be followed. Although inquiries have been made from the Director General of the Public Finance Department,as the answers were not received for the letter, the verbal instructions were received from the said Department and it is kindly informed that the contracted agencies have not been evaluated in the bid evaluation criteria.

3.4 Assets Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) There were 565 post offices that were not formally taken over and despite the Department of Posts had land, 08 post offices were maintained in rented buildings without taking any action to construct office buildings.	It is informed that the request letters have been forwarded to the relevant institutions to speed up the land transfer activities to cover all the Deputy Postmaster General's Divisions in order to speed up the land transfer activities. Although the lands have been acquired but no provision has been made to the Department by the Treasury for the construction of new buildings on those lands, it is mentioned that the lands are underutilized. Therefore, it is reported that those offices have to be installed and maintained in the buildings on rental basis.	The number of 565 post offices should be formally taken over.
(b) It was observed that there was underutilized land of 83,152.61 square meters (3,286.66 perches) in 43 post offices and 02 quarters owned by the Department as at 31 December 2022 .	At a time when the country is facing severe financial crisis, since the Department of Posts is not in a position to directly invest public money to construct new buildings on land formally assigned to it, a Memorandum of Cabinet of Ministers has been forwarded proposing 17 underutilized plots of land for the construction of new buildings following a system that secures the right of the Department of Posts and the approval of the Cabinet of Ministers has been received for that. There are post offices in most of the lands, but I would like to mention that there is a possibility to carry out other income generating projects in those lands.	Actions should be taken for underutilized lands.

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| <p>(c) The plots of land acquired by the Department but not assessed as at 31 December, 2022 was 63 .The plots of land that has been taken over and not assessed for more than 02 years was 30 . There were 15 plots of land that had been acquired and not assessed between 10 and 35 years and 30 plots of land that had not been taken over and assessed for less than 02 years.The Department was unable to find the date of acquisition of 03 lands.</p> | <p>It has not been possible to send for this assessment so far.</p> | <p>The lands belonging to the Department of Posts should be properly identified.</p> |
| <p>(d) Even though a sum of Rs.371,940 had been spent for the land acquisition and surveying of 12 post offices and sub post offices during the year under review,he activities on transferring of lands had not been completed by 28 March 2023 .</p> | <p>After surveying a plot of land under the land acquisition system, the relevant Divisional Secretary carries out the activities of handing over the plan of it to the Land Commissioner General and it is reported that, depending on the existing efficiencies and legal conditions of those institutions, it will take some time for formal transferring activities.</p> | <p>Land acquisition activities of 12 post offices and sub-post offices should be completed.</p> |
| <p>(e) It was observed that there are differences in the ownership of post office lands as per the records maintained by the Head Office and the records maintained by the Deputy Postmaster General's office.</p> | <p>The certificates issued after the formal transfer of post office and sub post office lands used by the Department of Posts and the files containing the certificates issued after the formal transfer of post office and the files containing documents given as tenure under the Land Acquisition Act, are available in the Buildings and Lands Division. Further, the original copies of formal transfer certificates of those formally assigned offices have been brought to the postal Headquarters .</p> | <p>The Data System should be accurately prepared.</p> |

- (f) When comparing the information obtained from the Department of Posts and the Department of Motor Traffic in respect of vehicles registered in the name of Postmaster General, the Department did not have the information regarding 42 vehicles and even though the bus numbered 60 Sri 7256 had been removed from use, necessary steps had not been taken for that.
- A Committee has been appointed to look into the 42 vehicles registered in the name of the Postmaster General and further activities are being carried out by the said Committee. It is kindly informed that the necessary repairs are being carried out for the bus numbered 60 Sri 7256 to be used as an exhibition vehicle of the Stamp Bureau.
- All the vehicles registered in the name of the Postmaster General should be identified. Necessary actions should be taken for the bus which was removed from use.

3.5 Losses and Damages

Audit Observation	Comments of the Accounting Officer	Recommendation
The Department had failed to recover the loss totalled to Rs. 15,249,351, entitled to the period in between 5-10 years amounted to Rs. 578,171 and to a period for more than 10 years amounted to Rs.14,671,180 furthermore .	it is informed that there has been a reason for the delay in deducting the loss due to the matters such as difficulty in obtaining police reports, investigation reports etc. related to money frauds, thefts, robberies etc. (Due to the increase of certain losses for 10 years, loss of necessary information due to acts of terrorism, military operations etc.) and pending cases.	Arrangements should be made to recover the loss.

3.6 Management Weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
A financial fraud valued at Rs. 1,295,400 had been revealed in Kalutara Regional Accounts Office 09 years ago and arrangements had not been made to settle a balance of Rs. 1,145,850 of that even by 31 December 2022 .	An investigation related to it is being done by now.	The Department should take prompt actions to complete the investigation.

4. Human Resources Management

4.1 Approved Staff, Actual Staff

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Although the number of employees approved by the Treasury for the post of Departmental Deputy Postmaster General is 09, thus the actual staff was 11, two posts of Deputy Postmaster General had been recruited in excess of the approved number of employees. Despite the post of Deputy Postmaster General which was approved by the Treasury had been filled by 09 January 2020, two officers had been appointed to the Departmental Posts of Deputy Postmaster Generals on 11 December 2021 and 27 April 2022 without having any approval.</p>	<p>As the officers who had quailed in the Sri Lanka Administrative Service did not apply for the posts, qualified officers of the Department had to be deployed for those 02 positions.</p>	<p>Recruitments should be done as per the number of employees approved by the Management Services Department of the Treasury.</p>