

Head- 308- Department of Posts

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Posts for the year ended 31 December 2019 comprising the statement of financial position at 31 December 2019 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 Officers on 30 June 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report relevant to the Department of Posts was issued to the Accounting Officer on 28 September 2020 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. This report will be tabled 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 prepared in accordance with the provisions in the State Accounts Circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Posts as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Chief Accounting Officer and the Accounting Officer are 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.

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department 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 Department's 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, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 6 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

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

1.6 Comments on the Financial Statements

1.6.1 Non-compliance with circular provisions on Financial Statements

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) According to Section 3.5 of State Accounts Circular No. 271/2019 dated 03 December 2019, reasons attributed to the savings should be explained, whereas reasons for the balance of Rs. 101,420,388 relating to 03 Objects had not been explained. The savings in those Objects ranged from 17 per cent to 45 per cent.	According to Section 3.5 of State Accounts Circular No. 271/2019 dated 03 December 2019, reasons attributed to the savings should be explained.	Audit observation is accepted.
(b) The stamp duty income of Rs. 2,646,539,778 received from the Treasury had not been deducted in the Imprest Adjustment Account prepared to reconcile the balance payable to the Treasury and the cash book balance as at 31 December 2019 as per paragraph 7 (VI) of State Accounts Circular No. 271/2019 dated 03rd December 2019.	The stamp duty income received by the Department from the Treasury should be deducted from the Imprest Adjustment Account.	It is accepted that Rs. 2,646,539,778 should be adjusted in the Imprest Adjustment Account.

1.6.2 Statement of Financial Performance

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Even though the non-revenue receipts of the Department amounted to Rs. 5,905,655,779 according to the consolidated trial balance, that value had been stated as Rs.3,259,116,002 under the cash flow generated by the operating activities in the statement of financial performance and the cash flow statement.	Other receipts of the Department should be accurately stated in the financial statements according to the consolidated trial balance.	The audit observation that the amount of Rs. 3,259,116,002 stated as other receipts under non-income receipts in the 2019 financial statement should be stated as Rs.5,905,655,779 is accepted.

1.6.3 Statement of Financial Position

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The balance of non-financial asset according to the department books as at 31 December 2019 was not reconciled with the Treasury printouts by Rs. 2,643,420.	The non-financial asset balance should be reconciled with the department books and Treasury printouts.	Audit observation is accepted. Necessary arrangements are being made to correct the differences through the journal entries according to the relevant District Accounts Office .

1.6.4 Cash Flow Statements

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Although Non-revenue receipts under the cash flows generated from operating activities should be Rs.5,749,524,631, it had	Non-revenue receipts should be accurately calculated and shown in	The observation is accepted. Relevant officials were instructed to take steps to

been shown as Rs.8,396,064,408. the financial statements. Accordingly, a sum of Rs. 2,646,539,777 had been overstated.

accurately calculate these values in the preparation of Financial Statement for the year the 2020.

1.6.5 Reconciliation statements on Advacec to Public Officers Accounting

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>There was a difference of Rs. 3,081,643 between the individual loan balance and the control account balance of the two District Accounts Offices at Anuradhapura and Kalutara.</p>	<p>There should be no discrepancy between the individual loan balance and the control account balance at all times and prompt action should be taken to complete departmental investigations.</p>	<p>Action will be taken to inform the Audit of the action taken after the relevant differences are identified.</p> <p>Internal investigations are in progress at the departmental level regarding the financial fraud of Rs.1,295,400 committed in the Kalutara District Accountant's Office. Action will be taken to inform the action taken after the completion of the investigations.</p>

1.6.6 Certification to be made by the Accounting Officer

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>In terms of provisions in Section 38 of the National Audit Act No.19 of 2018, the Chief the Accounting Officer shall ensure that an effective internal control system for the financial control</p>	<p>Action should be taken in terms of provisions in Section 38 of the National Audit Act</p>	<p>It is accepted that an effective internal control system should be prepared and</p>

exists in 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 and that such review makes in writing and submits a copy thereof to the Auditor General. Nevertheless, statements had not been furnished to audit that such reviews had been made.

No.19 of 2018.

maintained for the financial control of the Department in terms of provisions in Section 38 of the National Audit Act No.38 of 2019.

2. Financial Review

2.1 Imprest Management

Audit Observation	Recommendation	Comments of the Accounting Officer
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Out of the unsettled imprest balance of Rs.2,956,427 as at 31 December 2019, a sum of Rs.1,218,530 had been settled by 28 February 2020 but it had not been disclosed.	Imprest balances should be settled by 31 December of each year and relevant disclosures should be made to the imprest account.	Audit observation is accepted. It was noted to disclose the details of the sub-imprest that had been settled prior to the preparation of the Financial Statement at the time of preparing Financial Statement for the year 2020.

2.2 Revenue Management

The following observations are made

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The closing balance of the	Outstanding income	The balance of outstanding

outstanding income for the year 2018 was Rs. 536,467,125 but the opening balance of outstanding income in the 2019 was Rs. 977,174,695 . Accordingly, the difference of Rs. 440,707,570 was the balance of outstanding income identified after the preparation of the 2018 financial statements.

should be accurately identified and adjusted in the accounts.

income as at the date of submission of financial statements on 31 December 2018 was Rs. 536,467,125. The outstanding income relating to International Mail is recognized as net payments or net income in accordance with the regulations of the Universal Postal Union.

Accordingly, the newly identified international postal income for the next year has to be adjusted in accordance with the regulations of the Universal Postal Union.

- (b) When comparing 32 income categories with the estimate, the favourable variance ranged from Rs. 2,165 to Rs. 186,829,804 or from 1.42 per cent to 98.96 per cent. The adverse variance in 27 income categories ranged from Rs.7,988 to Rs.65,917,309, or from 4.5 per cent to 99.6 per cent

Action should be taken to prepare estimates in accordance with State Fiscal Policy and Economic Affairs Circular No. 01/2015 dated 20 July 2018.

The preparation of revenue estimates for the year 2019 was carried out taking into account the revenue of the past years and future promotional activities.

2.3 Expenditure Management

Audit Observation

Recommendation

Comments of the Accounting Officer

After utilizing the provision of 01 recurrent Object and 01 capital Object, provision

Accurate estimates should be made in accordance

Audit observation is accepted. Provisions were saved due to

totalling Rs. 9,194,797 had been saved as 13 per cent and 20 per cent respectively due to obtaining overprovision. with Regulations 50. Financial procurement shortfalls and expenditure control.

2.4 Incurring Liabilities and Commitments

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Contrary to Section 2 (d) of the State Accounts Circular No. 255/2017 dated 27 April 2017, the value of liabilities incurred for 07 Heads of Expenditure without provision for the year 2019 amounted to Rs. 62,831,513.</p>	<p>Steps should be taken with regard to the liabilities in terms of Paragraph 2 (d) of State Accounts Circular No. 255/2017 dated 27 April 2017.</p>	<p>That action had to be taken to incur liabilities of Rs.62,831,713 in excess of the provisions during the year under review in order to obtain the services required to maintain the continuous operational process of the Postal Department. Although efforts are made to control this condition every year, this situation has arisen due to unforeseen reasons.</p>

2.5 Operating Bank Accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>There was an unidentified debit</p>	<p>Unidentified payments</p>	<p>District Accountants have been</p>

balance of Rs. 314,133 in 06 bank accounts as at 31 December 2019. should be identified.

notified on 29 June 2020 for identification of unidentified payments.

3. Operating Review

3.1 Failure to Achieve the Expected Output Level

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Although increase in salaries and overtime costs had led to increase in the loss in 2019 by Rs.138 million compared to 2018, the strategies needed to increase revenue correspondingly had not been identified	Strategies should be introduced to cover the expenditure of the Department and to increase revenue.	It is accepted that the departmental loss has increased by 137.74 million in the year 2019 compared to 2018. The department has formulated a five year plan to minimize the operating losses and it is expected to balance revenue with expenditure over the next five years.

3.2 Assets Management

The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The physical stock of stamps of	In the event of non-	The difference of

the Stamp Bureau of the Narahenpita Accounts Office as at 31 December 2019 had been understated by Rs.132,943,642. reconciliation of the physical stock with the stamp stock account, prompt action should be taken to find out the reasons and reconcile it.. The correct stock as at 31 December of each year should be reported. Rs.132,943,642 was checked with the previous stamp inventory records and treasury printouts and there is a difference in this stamp stock account since 2011 and the stock of stamps belonging to the Stamp Bureau of the Narahenpita Stamp Division has not been reported to the physical stock balance.

- (b) According to the Board of Survey reports, the required actions had not been taken in respect of the shortage of stamps worth Rs. 2,526,800 remained in the custody of the Accountant of the Stamp Division. Action in terms of Financial Regulation 102 should be taken in respect of the shortage of stamps. The Investigation Division of the Department is conducting investigations and action will be taken to inform on the action taken after the completion of the investigation.

3.3 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Proper action had not been taken to recover the debt balance of over Rs. 24,251,407 continued to exist for more than 5 years.	Action should be taken to recover old debt balances.	That all District Accountants' Offices have been instructed to take action to recover the loan balances and to forward files to the Treasury indicating the action taken on the loan balances which were unable to recover and the reasons for non-

recovery in order to write off such balances and the files so received are being examined at present.

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| (b) | Overtime of Rs.5,171,110 had been paid to 46 officers and employees of the Mount Lavinia Post Office who had not maintained proper records of their arrival and departure. | Arrivals and departures should be properly maintained and overtime payments should be made accordingly. | Audit observation is accepted. |
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4. Achievement of Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
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All government institutions should comply with the United Nations 2030 Agenda for Sustainable Development, and the Postal Department provided information on 17 identified objectives in the 2017. Although it has been stated that priority will be given for the implementation of the Bepost projects out of these objectives, It was not observed that steps have been taken to develop an accurate database to measure the achievement of the sustainable development goals of the project. Therefore it was not possible to verify the targeted amount achieved during the year under review.	A clear, flexible database should be identified to measure sustainable development goals.	Targets and indicators have been introduced for the implementation of b-post e-business and about 200 medium scale entrepreneurs have registered. Further, It has also been included in the five-year plan to be implemented in 2019-2023. Although Rs. 9 million was requested to implement this project from the estimate 2019, it could not proceed with due to non-receipt of provisions. Provisions have been requested for this purpose for the year 2020 as well.

5. Human Resource Management

----- Audit Observation	Recommendation	Comments of the Accounting Officer
----- Among the 1,350 vacancies as at the end of the year under review, there were 58 senior level vacancies and 32 tertiary level vacancies. The Department had failed either to fill those vacancies or revise the approved cadre.	----- Vacancies should be filled or the cadre should be revised.	----- Preliminary work is underway to make necessary recruitments for the vacancies available in the Postal Department.