

Report of the Auditor General on Head 308 – Department of Posts - Year 2016

The audit of the Appropriation Account, Revenue Account and the Reconciliation Statements including the financial records, books, registers and other records, of the Head 308 – Department of Posts for the year ended 31 December 2016, was carried out in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review had been issued to the Post Master General on 30 August 2017. The audit observations, comments and findings on accounts and reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and substantive 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.

1.2 Responsibility 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 Account, Revenue Account and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control necessary to enable 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 Account

Total Provision and Expenditure

The total net provision made for the Department of Posts amounted to Rs.12,486.50 million and out of that, a sum of Rs.12,419.73 million had been utilized by the end of the year under review. Accordingly, savings out of the net provisions of the Department amounted to Rs.66.77 million representing 0.53 per cent of the total net provision. Particulars are given below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs. Millions	Rs. Millions	
Recurrent	12,348.50	12,284.17	64.33	0.52
Capital	138.00	135.56	2.44	1.77
Total	12,486.50	12,419.73	66.77	0.53

2.2 Revenue Account

Estimated and Actual Revenue

The Department had estimated the revenue for the year 2016 at Rs.7,000 million and a total revenue of Rs.6,578 million had been collected during the year under review, representing 93.97 per cent of the estimated revenue. Particulars are given below.

Revenue Code	31 December 2016			Excess/ (shortage) as a percentage of estimates
	Estimated Revenue	Actual Revenue	Excess/ (shortage)	
	Rs.Mn	Rs.Mn	Rs.Mn	
20.01.02.00	7,000	6,578.13	(422)	(6.03)

2.3. Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers' Account Item No. 30801 relating to the Department and the actual amounts are given below.

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
750.00	749.72	640.00	701.58	2,400.00	1,707.51

2.4 Imprest Account

The balance of the Imprest Account bearing No.7002/0000/00/0098/0016/000 as at 31 December 2016 amounted to Rs.3,494.62 million.

2.5 General Deposit Account

The total balances of 6 deposit accounts as at 31 December 2016 under the Department amounted to Rs.54.35 million. Particulars are given below.

Deposit Account Number	Balance as at 31 December 2016
	Rs. millions
6000/0000/00/0001/0038/000	3.08
6000/0000/00/0002/0049/000	0.70
6000/0000/00/0013/0039/000	7.65

6000/0000/00/0016/0002/000	10.08
6000/0000/00/0018/0009/000	32.75
6000/0000/00/0020/0027/000	0.09

Total	<u>54.35</u>

2.6 Audit Observation

The Appropriation Account, Revenue Account and the Reconciliation Statements of the Department of Posts for the year ended 31 December 2016 have been prepared satisfactorily, subject to the audit observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. Out of the above observations, the material and significant observations appear in paragraph 3 herein.

3. Material and Significant Audit Observations

3.1 Non-maintenance of books and records

The following registers had not been maintained by the Department in an updated manner.

Type of Registers	Relevant Regulation
-----	-----
(i) Register of fixed assets	Treasury Circular No.842 of 19 December 1978.
(ii) Register of fixed assets for Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002.

3.2 Imprest Account

- The imprest account had not been reconciled monthly with the accounts of the Treasury in terms of Financial Regulation 427 (2).
- Out of the money remitted to the Treasury as at 01 January 2017 sums of Rs.70,000,000 and Rs.200,000,000 had been remitted on 05 January 2017 and 09 January 2017 respectively.
- Even though, sub-impressts given should be settled as at 31 December 2016, advances of Rs.340,721 had not been so settled. Furthermore, non-settlement of sub-impressts totalling Rs.423,852,026 given to Regional offices had been the reason for not to become the zero balance of the imprest accounts.
- An advance obtained should be settled immediately after the completion of the purpose for which it was obtained in terms of Financial Regulation 371 (2)(c).

However, advances totalling Rs.513,330 obtained in 18 instances had been settled after delays ranging from 11 days to 6 months.

- (e) In terms of section (b) of the Public Finance Circular No.03/2015 dated 14 July 2015, a sub-imprest can be given for a special purpose up to a maximum of Rs.100,000 at a time. However, sub-imprests totalling Rs.300,000 at Rs.100,000 each in 3 instances had been granted to the Director (Training) for the same purpose.

3.3 General Deposit Account

Deposit totalling Rs.4,096,704 elapsed for more than 2 years as at 31 December 2016 had not been credited to Government Revenue in terms of Financial Regulation 570 and 571.

3.4 Liabilities

-
- (a) Even though, except where otherwise provided for, no commitment shall be incurred in terms of financial regulation 94(1), commitment in excess of savings after utilization of provision relating to 11 Objects totalling Rs.73,284,551 had been incurred.
 - (b) It was observed at test checks carried out in the Postal Headquarters and stamps stores office that, liabilities of Rs.6,756,461 settled in the year 2017 in respect of the year under review had not been disclosed in the Appropriation Account.

3.5 Revenue Account

Functions of the preparation of revenue estimates under Revenue Code No.20-01-02-00, collection of revenue, accounting and presentation of accounts were assigned to the Head of Department as the Accounting Officer. Audit test check carried out relating to that revenue code observed the following deficiencies.

3.5.1 Correct values not shown in the account

-
- (a) The estimated revenue in the year 2016 amounted to Rs.7,500,000,000 but it had been shown as Rs.8,193,650,390 in the revenue account thus overstating by Rs.693,650,390.
 - (b) Even though according to the revised estimate for the year 2016, the revenue was Rs.7,000,000,000, it was shown as Rs.6,999,697,823 in the revenue account thus understating a sum of Rs.302,177.

3.5.2 Estimates revenue and actual revenue

-
- (a) Even though the estimated revenue amounted to Rs.7,000,000,000 the revenue actually collected was less than Rs.421,866,364 thereof.

- (b) In the preparation of revenue estimates, hypothetical figures had been used instead of using realistic figures and as such there were plus and minus variances ranging from 10 per cent to 810 per cent and 27,788 per cent respectively in each item.

3.5.3 Non-compliance with Laws, Rules and Regulations

- (a) According to fiscal policies and Economic Affairs Circular No.01/2002 dated 17 July 2002, appropriately prepared quarterly revenue reports should be presented to the Director General of the Fiscal Policies and Economic Affairs within 15 days after the relevant period, but it had not been so presented.
- (b) In terms of Paragraph 04 of the State Accounts Circular No.187/2006 dated 27 September 2006, a reconciliation statement between the monthly statement of accounts prepared by the Department of State Accounts based on data collected and the values as per Departmental books should be presented to the Director General of State Accounts before the end of the ensuing month. However, delays ranging from 12 days to 90 days were observed in the presentation of such reports in respect of January to August 2016 and December 2016.

3.5.4 Refunds of Revenue

Even though, the money credited to government revenue is refunded, the approval of the Treasury should be obtained, such approval had not been obtained for the refund of a sum of Rs.1,681,610.

3.5.5 Revenue of “Sannivedana Piyasa”

- (a) Even though the revenue of Sannivedana Piyasa in the year 2016 amounted to Rs.1.37 million, it had been Rs.7.00 million in the year 2015, thus deteriorating by Rs.5.63 million or 81 per cent. However, according to the Circular No.14/2000 dated 07 November 2000 of the Post Master General the profit/ loss should be recognized. Without doing it, a methodology had been applied for the accounting of receipts and payments of Sannivedana Piyasa. As such the values shown as revenue had not been taken and accounted on realistic basis.
- (b) Even though, the income of the postal shop as at 31 December 2016 should be credited to the Consolidated Fund, without doing so, a sum of Rs.2,196,112 had been retained in the deposit account.

3.5.6 Decline of Revenue

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

Description	2016	2015	Difference	(Increase/ Decrease) as a percentage
-----	-----	-----	-----	-----
	Rs.Mn	Rs.Mn	Rs.Mn	
Revenue	6,578	6,710	132	1.97
Expenditure	12,284	11,756	528	4.5
Operating Deficit	5,706	5,045	661	13

- (a) As compared with the revenue of Rs.6,710 million in the preceding year, the revenue of the year under review amounted to Rs.6,578 million, thus indicating a decrease of Rs.132 million or 1.97 per cent as compared with the preceding year. Specially, the competition with parallel service providers in the market, decrease of stamp revenue, weaknesses in the implementation of networking of post offices project had mainly attributed to decrease the revenue.
- (b) The operating deficit had increased by 13 per cent as compared with that of the preceding year. Increase of operating expenses had caused to this.
- (c) One object of the post offices network project commenced in the year 2007 and completed in the year 2014 was to prevent continuous losses incurred by the Department of Posts and to maintain equal position of income and expenditure. However, the operating loss incurred by the Department during the year under review amounted to Rs.5,706 million, representing an increase of Rs.661 million as compared with the operating deficit of the preceding year.

3.6 Reconciliation Statement of the advances to Public Officers Account

The following deficiencies were observed at test check carried out in respect of the reconciliation statement of the advances to public officers account bearing item No.36801.

(a) **Imbalance**

According to the individual balances classification summary and the balances in the control accounts of District Accounts offices amounted to Rs.1,698,646,560 and Rs.1,707,336,594 respectively and as such the difference was Rs.8,690,034.

(b) **Outstanding balances**

According to the information made available to audit, the outstanding loan balances as at the end of the year under review totalled Rs.65,897,858. The total loan balances included therein remained outstanding for periods ranging from 05 to 35 years amounted to Rs.29,516,209.

(c) **Distress loans paid in excess of the limit**

In terms of National Budget Circular No.155 of 30 December 2011, the overall distress loan to be paid to a public servant is limited to Rs.250,000, but distress loans in excess of that limit had been paid to 22 officers.

3.7 Good Governance and Accountability

3.7.1 Internal Audit

- (a) Even though, the approved number of audit officers to the internal audit division was 89, only 19 officers, including 9 audit officers had been attached thereto. As a result, an efficient one effective internal audit could not be carried out.
- (b) Out of 653 post officers, only 167 post offices and 16 accounts offices had been audited in the year 2015 and up to September 2016. However, sub-post offices had not been audited.
- (c) Eight main functions in the Head Office and 8 functions in the Central Mail Exchange included in the internal audit plan for the year under review had not been audited.

3.8 Assets Management

The following deficiencies were observed at audit test check carried out in respect of assets of the Department.

3.8.1 Idle and Under-utilised Assets

Spare parts of 5 motor vehicles scheduled for auctioning had been stolen. As the investigation in this regard had been delayed, those vehicles were being dilapidated in the Narahenpita Garage.

3.8.2 Assets net vested

- (a) Out of the lands belonged to Post Offices in 9 provinces, extent of land formally vested was 87 units and the extent of land taken over only for tenure was 120 units. The extent of lands not acquired up to now was 68 units and the areas of these lands had not been recognized.
- (b) Even though, 652 post offices existed island wide, the ownership of 448 thereof had not been acquired by the Department of posts.

3.8.3 Conducting annual board of survey

In terms of Public Finance Circular No.05/2016 of 31 March 2016, the annual board of Survey for the year 2016 should be conducted and those reports should be sent to the Auditor

General before 17 March 2017. However, such reports in the Kegalle, Colombo North and South Divisions of superintendents of posts had not been submitted to the Auditor General even up to 31 July 2017.

3.9 Performance

- (a) In the examination of the action plan for the year 2016 and the capital expenditure progress report observed the following matters.
- (i) Projects had not been executed in accordance with the action plan and 57 projects included in the action plan had been revised.
 - (ii) Building repairs and 47 promotion programs, not included in the action plan had been implemented.
 - (iii) Thirteen motor cycles, not included in the action plan and the procurement plan had been purchased for Rs.3,348,849.
- (b) Performance of conducting investigations
-
- (i) Section 13.1 of Chapter XLVIII of part II of the Establishments Code, 2,684 investigations had existed, without being conducted preliminary investigations of the Department and they had remained for periods ranging from 01 to 18 years.
 - (ii) In terms of Public Administration Circular No.06/2004 (1) dated 30 December 2011 issued as amendment to Sub-section 22:1:1 of Chapter XLVIII of the Establishments Code, the Disciplinary Authority should take action to complete the relevant inquiry within one year after being issued a charge sheet against an accused officer and issue the disciplinary orders. However, periods ranging from 01 year to 09 years had been delayed to issue charge sheets after being completed the preliminary inquiries of 10 cases.
 - (iii) A public officer interdicted under section 31:11 of Chapter XLVIII of the Establishments Code, an accused officer should not be re-employed before the disciplinary order is issued. Contrary to that, employees who had committed misappropriation of a serious nature of public funds and property had been re-instated. Eight such instances were revealed and its financial value was Rs.16 million.
 - (iv) Even though, action should be taken in respect of misappropriation of public funds where legal proceedings have been initiated and in respect of discrepancies referred to the Criminal Investigation Department and disciplinary orders should be issued, action in respect of financial irregularities totalling Rs.9,680,690 had not been taken accordingly.
 - (v) Where a report by the Auditor General or internal audit reports disclose that an officer has committed irregularities or act of misconduct, the relevant

disciplinary authority should take action in terms of sections 29:1, 29:2 and 29.3 of Chapter XLVIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. However, investigations in 7 instances valued at Rs.189,182,368 had not been completed.

- (vi) The approved posts of Assistant Superintendent of Posts (Investigations) amounted to 51 and the actual cadre as at 31 December 2016 was 32 and 4 contract basis officers. Due to dearth of officers, the Post Master General's view was that only 16 officers had been used for investigation purposes and this would cause to become investigations slackness. However, the progress of investigations carried out by officers attached to this purpose had been at a very low value.

3.10 Irregular Transactions

Certain transactions carried out by the Department had been informal and some such instances observed are as follows.

3.10.1 Deviation from procedures in Government Procurement Guidelines

(a) Construction of the Pujapitiya new post office Building

- (i) In terms of paragraph 4.1 (b) of the Government Procurement Guidelines, before the construction of a building begins, allocation of provisions, ascertainment of Survey reports on the land, calling for bids and preparation of the design should be done. Without adhering those requirements, the foundation stone was laid for this construction work on 14 June 2015.
- (ii) Construction works had been awarded to the Department of Buildings and 36 per cent of the estimated amount, that is Rs.23,502,163 had been paid by 31 December 2016 but work done reports had not been furnished.
- (iii) According to the agreement signed on 15 September 2016 with the Department of Buildings, work of this building should have been completed on 30 September 2017. However, construction work of the building had not been commenced even by July 2017.
- (iv) Even though, the work of this Postal Complex had not been commenced in the year 2016, an asset valued at Rs.16,032,294 had been shown in the account.

(b) Construction of the Anuradhapura Postal Complex new building

Construction of the Anuradhapura Post Office Buildings Complex had been awarded to the Department of Buildings and the construction works had been commenced on 19 January 2010. The following observations are made in this connection.

- (i) This construction work with the area of 16,275 square feet, the estimated value of which amounted to Rs.94,750,000, comprising 3 stories had been commenced in the year 2010 by the Department of Buildings. However, only the works of ground floor and the first floor had been completed and opened for office purposes on 10 November 2013.
- (ii) Despite the foundation and concrete works had been carried out for 3 stories at the beginning, it had increased to 5 stories subsequently and a sum of Rs.155 million had been approved.
- (iii) In the construction of buildings in lands with high economic values, they should be designed in considering future prospects as well in terms of current Urban Development criteria in Sri Lanka. However, in the design of this building complex it had not been so done.
- (iv) After being constructed a part of the building, the work completion date had been 18 November 2016 as per agreement entered in to with the Department of Buildings on 09 December 2015 but it had been extended up to 15 March 2017 and it had taken 7 years for the construction of this building.
- (v) Without being obtained work done reports, a sum of Rs.84,460,939 had been paid to the Department of Buildings by 23 December 2016.

3.11 Losses and Damages

 The value losses brought forward for periods from 1984 to 2010 for which action had not been taken to write off or to recover amounted to Rs.11,978,671.

3.12 Management Inefficiencies

 Audit checks observed the following weaknesses.

3.12.1 Money Orders Services Account

Reconciliation Statement of money order services – 2015

 The following observations are made.

- (i) Several years had elapsed since the introduction of the Computer Software relating to the money order transactions by the Department of Posts. Due to weaknesses in that Software System, information obtained therefrom had been incorrect and there were differences in issuing money orders, payments made and the revenue on money order commissions amounting to Rs.826,396,815, Rs.832,549,569 and Rs.1,547,533 respectively.
- (ii) Due to erroneous accounting and mistakes of money order issues and making payments, they had been very much under accounted and over accounted. This had

been continuously occurred but the Department had not taken action to overcome this position.

- (iii) The money order services Account for the year 2016 had not been presented even by 30 August 2017.

3.12.2 Payment of overtime balances

The overtime and Holiday pay expenditure in the years 2015 and 2016 amounted to Rs.640.9 million and Rs.776.6 million. It was observed in audit that action had not been taken to control overtime payments.

3.13 Human Resources Management

Approved and Actual Cadre

Cadre position as at 31 December 2016 is given below.

	Category of Employees	Approved Cadre	Actual Cadre	No. of Vacancies
(i)	Senior Level	121	87	34
(ii)	Tertiary Level	147	54	93
(iii)	Secondary Level	8,854	8,045	809
(iv)	Primary Level	17,659	12,696	175
(v)	Other substitute	-	4,788	
(vi)	Contract basis	-	05	
	Total	26,781	25,675	1,111

- (i) A new service minute for the officers and employees of the Department of Posts had not been approved in terms of Public Administration Circular Nu.06/2016.
- (ii) Without taking action to recruit permanent employees, 4,788 substitute employees had been recruited on contract basis.
- (iii) Transfers of the officers of the Department of Posts had not been properly done. There were instances where officers had served for a long period in a same office and both husband and wife had served in the same office.