

## **Geological Survey and Mines Bureau**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Geological Survey and Mines Bureau had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Geological Survey and Mines Bureau as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

### **1:2 Comments on Financial Statements**

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#### **1:2:1 Sri Lanka Accounting Standards**

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The following observations are made.

(a) **Sri Lanka Accounting Standard No.03**

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- (i) The schedule of changes in equity had not been presented along with the financial statements.
- (ii) The comparative values for the preceding year relating to accounting entries for the year under review shown in the financial statements and the cash flow statements had not been presented.

- (b) Even though assets in use with a zero carrying value had existed, action had not been taken either to revalue and account for such assets or to disclose the gross value of such assets with the accounts in terms of Sri Lanka Accounting Standard No.18.

### **1:2:2 Accounting Deficiencies**

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The following observations are made.

- (a) The recurrent expenditure amounting to Rs. 479,202 incurred for construction of a building for the Head Office had been brought to account as capital expenditure.
- (b) Amount spent for purchase of a land situated at Battaramulla for construction of a building had been brought to account understating by Rs. 8,503,440.

### **1:2:3 Accounts Receivable and Payable**

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The age analysis of debtors balances totaling Rs.1, 426,936 had not been presented for audit. According to the age analysis of debtors amounting to Rs. 22,468,378 presented for audit, the value of debtors exceeding 5 years amounted to Rs 2,189,338 According to the age analysis of creditors valued at Rs. 7,793,376 presented, the balances exceeding 03 years amounted to Rs. 285,923.

### **1:2:4 Lack of Evidence for Audit**

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Transactions in 03 instances valued at Rs. 7,766,873 could not be satisfactorily vouched in audit due to the non-availability of the evidence such as schedule of stocks, report of the Boards of Survey, Register of Returned Cheques and schedule of debtors.

**1:2:5 Non-compliances with Laws, Rules, Regulations and Management Decisions.**

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Non-compliances with the following laws, rules, regulations etc. were observed.

| Reference to Laws, Rules,<br>Regulations and Management<br>Decisions | Non-compliance   |
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| -----  | -----  |
| (a) Paragraph 13(5) (a) of the<br>Finance Act, No. 38 of 1971        | Copies of circulars issued by the Bureau from time to time in respect of issuing royalties and licenses on the basis of excavation had not been provided to the Audit Division.      |
| (b) Code of Financial Regulations                                    |  |
| -----  |  |
| (i) F.R No. 104  | Even though damages had caused to 07 motor vehicles belonging to the Bureau during the year under review and the preceding year, those had not been reported to the Auditor General. |
| (ii) F.R 110   | A Register of Damages and Losses had not been maintained for the year under review.  |
| (iii) F. R 341   | Even though a control should be followed in respect of counterfoil books, the  |

management had not introduced a correct guideline on utilization and storages of counterfoil books.

(iv) F.R 763

A storage procedure had not been prepared in order to strengthen the internal control on utilization of counterfoil books, license, debit notes, goods ordering books and fuel ordering books in the Bureau.

(v) F.R 1646

Even though the Daily Running Charts and the Monthly Performance Summaries of the motor vehicles for each month should be furnished to the Auditor General before the 15<sup>th</sup> day of the month following, the Bureau had not taken action accordingly.

(vi) F.R 1647(a)

Even though a complete survey of the motor vehicles and their equipment should be conducted, such survey had not been conducted.

(vii) F.R 134(3)

The internal audit report that should be presented quarterly had not been presented.

(c) Public Enterprises Circular No.  
PED/12 of 02 June 2003

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i. Section 4.2.2

The Board of Directors had not taken action for periodical review of the Corporate Plan and the Budget along with the actual

performance and figures and take measures on variances.

ii. Section 5:1:3

Even though the updated Corporate Plan should be furnished to the Auditor General at least 15 days before the commencement of the year, it had not been so done in respect of the year 2010.

iii. Section 6.5.3

Even though the draft Annual Report in three languages should be tabled in Parliament within 150 days after closure of the financial year, it had not been so done in respect of the year 2008 and 2009.

(d) Public Administration Circular  
No. 41/90 dated 10 October 1990

Even though the consumption of fuel of vehicles should be tested every 6 months, action had not been taken accordingly.

**2. Financial and Operating Review**

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**2:1 Financial Review**

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**2:1:1 Financial Result**

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The operating result of the Bureau for the year ended 31 December 2010 amounted to a surplus of Rs. 469,504,023 as compared with the corresponding surplus of Rs. 385,563,862 for the preceding year, thus indicating an improvement of Rs. 83,940,161 in the financial results.

The increase of Rs.139.35 million in the income from royalties, the inspection fees by a sum of Rs.42.21 million, project income by a sum of Rs.23.69 million, the other operating income by a sum of Rs.4.82 million and the interest income by a sum of Rs. 19.84 million had mainly contributed to the improvement of the financial result referred to above.

## **2:1:2 Analytical Financial Reviews**

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 The following observations are made.

### (a) Income Analysis

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 The income of the Bureau for the year under review as compared with the preceding year indicated an increase of Rs.140, 418,043. This increase represented 22.38 per cent.

### (b) Expenditure Analysis

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 The total expenditure of the Bureau for the year under review as compared with the preceding year indicated an increase of Rs.56, 477,881 and that increase amounted to 23.37 per cent.

### (c) Cash Flow Statement Analysis

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 The following matters were observed

- (i) The cash flow generated from the net operating activities for the year 2009 amounted to a surplus of Rs.289, 933,644 whereas that amounted to a surplus of Rs.425, 974,200 in the year 2010. Accordingly, the increase of the cash flows from the net operating activities for the year 2010 amounted to Rs.136, 040,556.

- (ii) It was observed that the cash flows generated from the investment activities in the year 2009 amounted to a surplus of Rs. 110,527,671 and that had been converted to a deficit of Rs. 97,530,969 in the year under review.
- (iii) It was observed that the cash flows generated from the financial activities for the year 2010 as compared with the year 2009 amounted to a cash inflow of Rs. 652,129,369..

### **2.1.3 Transactions of Contentious Nature**

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The following matters were observed.

- (a) Even though 12 cab vehicles amounting to Rs. 90,091,848 had been purchased during the year under review and 10 vehicles had been purchased during the years 2009 and 2008 by spending Rs. 27,450,342 and Rs. 33,583,335 respectively, sum of Rs.2,063,234, Rs. 3,717,930 and Rs. 1,137,936 had been spent on hired motor vehicles, vehicle repairs and vehicle service charges respectively. In this connection, the Chairman reported that several vehicles of the Bureau were older than 10 years; as a result, the repair expenditure had increased. Therefore, the Bureau had considered to purchase new vehicles by selling old vehicles.
- (b) Age analysis in respect of a sum of Rs. 99,981,453 received during the year under review as royalty advances had not been submitted. As a result, correctness of the royalties and penalties decided in terms of Circular No. 19/02/2006 issued by the Bureau in respect of royalty advances could not be confirmed.
- (c) A sum of Rs. 72,860,052 shown during the year under review as license fees advances based on excavation had not been reconciled with the settlement of those advances. The Chairman informed that there were instances of not issuing license

based on any reason whereas those had remained as advances for long period without being settled and it will be decided in future for the opportunity of taking them into revenue account.

## **2:2 Operating Review**

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### **2:2:1 Performance**

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The physical and financial progress of completion of activities which were included in the Annual Action Plan and to be completed within the year had been as follows.

- (i) Sum of Rs. 200,000 and Rs. 750,000 had been provided under items Nos. 92 and 46 respectively for mapping and printing and Rs. 730,000 had been provided for mapping of Colombo Superficial whereas any of those activities had not been completed.
- (ii) The amount spent exceeding the limits of provision approved for 07 activities was Rs. 3,257,000.
- (iii) Number of activities, for which savings of provision ranging from 40 per cent to 93 per cent had been 08 and the savings of them, amounted to Rs. 6,927,000.
- (iv) The progress in 03 instances of mapping and printing activities, for which the works had been commenced, was less than 25 per cent.

### **2:2:2 Management Inefficiencies**

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The following observations are made.

- (a) It was observed that assigning the security duty, non appointment of a permanent officer responsible for stores, packing of stores goods, numbering of stores and classification of stores compound constructed by spending Rs. 56,805,031 up to the year under review had been at weak level.



- (b) Even though it was informed through the Circular Letter No.SP/SB/03/10 issued on 31 May 2010 by the Finance Commission of Sri Lanka that the Government institutions should implement e-Government Policy, it was observed that action had not been taken by the Bureau up to the time of audit inspection. Further, the Information Technology Unit of the Bureau had not been properly established and the responsibilities had not been properly assigned to the staff. Proper network connection had not been built up between the Head Office and regional offices.
- (c) Even though a sum of Rs. 130,476,703 had been spent by the Bureau during the year 2007 for purchasing a land in the Orugodawatta area for the purpose of construction of a building for the Had Office and for a ceremony to mark the laying of foundation for construction of a building on that land. However, the approval of the Urban Development Authority had not been obtained up to the date of audit inspection on 30 June 2011.

Sum of Rs. 188 million (According to letter No. GM/AD/10-01 dated 17 November 2008) and Rs. 29 million had been paid as building rent for the years from 1993 to 2008 and for the years 2009 and 2010 respectively as the Bureau had to stay further at the Senanayake Building on which the Head Office was situated since year 1993.

Further, a sum of Rs. 55,241,300 had been spent to purchase another land from the Urban Development Authority on a thirty year lease basis in the Battaramulla area during the year 2010. However, any construction work had not been started on it up to 30 June 2011. When considering the above matters, the amount spent in several instances to acquire a building to the Head Office was Rs.185, 718,003.

### **2.2.3 Idle and Underutilized Assets**

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The following matters were observed.

- (a) The construction works of the stores complex/ware house commenced from the year 2007 in the Werallawatta land used the Bureau from the year 1993, had been completed by spending Rs. 56,805,031 up to the year under review. 80 per cent of this land had remained idle without implementing the relevant plans by the Bureau.
- (b) It was observed at the physical verification of the stores compound that two unutilized generators had been kept at the stores. Detail information on the those

generators had not been submitted for audit and the reason to support for not utilizing those generators could not be obtained for audit.

#### 2:2:4 Personnel Management and the Cost

| Post                   | Approved Cadre        | Actual Cadre          | Number of<br>Vacancies |
|------------------------|-----------------------|-----------------------|------------------------|
| Upper Management       | 87                    | 77                    | 10                     |
| Middle Management      | 16                    | 08                    | 08                     |
| Operational Management | 278                   | 168                   | 110                    |
|                        | -----<br>381<br>===== | -----<br>253<br>===== | -----<br>128<br>=====  |

- (a) The approved cadre of the Bureau as at 31 December 2010 as shown above had been 381 and the actual cadre had been 253. There were vacancies for 128 posts. Instead of filling those posts, the Bureau had deployed persons on hire basis for the posts of Clerk, Mining Engineer, Drivers and Field Assistant, Purchasing Officer, Technical Officer, Karyala Karya Shahayaka and Labourers and paid a sum of Rs. 16,532,071 thereon including 12 per cent VAT during the year under review.

Particulars of Employees Recruited on Hire basis are given below

|                     | Number/ Number<br>of instances of<br>deployment | Amount paid for<br>the year 2010<br><br>Rs. |
|---------------------|---|---|
| Geologists          | 02  | 1,125,795                                   |
| Mining Engineers    | 48  | 2,547,243                                   |
| Clerks              | 120   | 2,510,055                                   |
| Field Assistants    | 214   | 5,944,533                                   |
| Technical Officers  | 30  | 726,539                                     |
| Purchasing Officers | 01  | 280,000                                     |
| Drivers             | 03  | 695,867                                     |

|           |       |            |
|-----------|-------|------------|
| K.K.S     | 03    | 489,244    |
| Labourers | 02    | 410,333    |
| VAT 12%   |       | 1,802,462  |
|           | ----- | -----      |
| Total     | 423   | 16,532,071 |
|           | ===== | =====      |

- (b) The copies of letters relating to the information of staff such as transfers, promotions, conversion of salaries, salary increments, dismissals, release from service, interdictions and retirements had not been furnished to the Auditor General in terms of Section 2:10 of Chapter VI of the Establishments Code. Thus, it was not possible to confirm in audit that the administration matters relating to the officers had been done in accordance with the provisions of the respective circulars and the Establishments Code.
- (c) Even though it was informed at the 203<sup>rd</sup> meeting of the Board of Management held on 23 March 2010 that the approval had been granted to recruit a person who obtained Level 5 (NVQ 5) qualification of the Tertiary and Vocational Training Institute as a Transport Officer, this post had appeared as an acting appointment as at 11 January 2011. Further, the Bureau had recruited a Transport Consultant for this function on the basis of a payment of Rs.10,000 per month.
- (d) It was observed that an officer had been recruited for the post of Finance Manager with effect from 02 August 2010 contrary to the qualification mentioned in the news paper advertisement published in order to recruit a qualified person to the post of Finance Manager of the Bureau.
- (e) A Consultant had been recruited during the year under review for the activities of the restructuring and performance appraisal of the Bureau employees and sums aggregating Rs. 460,000 had been paid in two instances. Even though he had provided the relevant report, there were several problems in that report. As a result, the management of the Bureau unable to obtain the approval for the recruitment and promotion procedure of staff deployed in service of the Bureau in terms of Letter No. PED/PU/Circular, dated 08 July 2009 of the Department of Public Enterprises and the Circular No. 30 dated 22 September 2006 of the Department of Management Services and to place in the relevant salary steps according to the circular instruction up to 30 June 2011.
- (f) The senior management had not taken action to fill the vacancies of two posts of Shroffs existed in the approved cadre of the Bureau. Therefore, it was observed that the

opportunity for vesting of responsibility with regard to utilization of cash had been limited through deployment of two ordinary clerks for those activities.

(g) Cost of Personnel  
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|                                      | Year 2010    | Year 2009    | Increase/<br>(Decrease) | Percentage of<br>increase/decrease as<br>compared<br>with the<br>previous year |
|--------------------------------------|--------------|--------------|-------------------------|--|
|                                      | -----<br>Rs. | -----<br>Rs. | -----<br>Rs.            | -----  |
| Salaries,<br>Wages and<br>Allowances | 90,872,914   | 76,613,407   | 14,259,507              | 18.61%   |
| Employees<br>Provident Fund          | 6,690,502    | 6,151,856    | 538,646                 | 8.75%  |
| Employees<br>Trust Fund              | 1,672,626    | 1,533,655    | 138,971                 | 9.06%  |
| Overtime<br>Allowance                | 7,549,958    | 6,380,356    | 1,169,602               | 18.33%   |
| Provision for<br>Gratuity            | 3,030,146    | 6,828,221    | (3,798,075)             | (55%)  |
| Incentive<br>Allowance               | 2,236,667    | 3,380,262    | 1,143,595               | 33%  |

**2:2:5 Utilization of Motor Vehicles**  
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Twenty eight permanent drivers of the Bureau and 09 drivers obtained on hire basis from the Technical Service Company of the Geological Survey and Mines Bureau had been deployed in service during the year under review for those 38 vehicles belonging to the Transport Unit.

(a) It was observed that the responsibility of drivers on vehicles had been violated due to not following a systematic work plan by the Bureau when assigning

drivers for vehicles. Similarly, there was an increasing trend of occurring vehicle accidents and this increase become two fold as compared with the previous year. The vehicle No. KL – 1021 had met with accidents for three times within 07 months period. Further, it was observed that 07 vehicles belonging to the Bureau had met with accidents for 10 times during the year under review. Therefore, it was further observed that the Transport Unit was subjected to risk due to no assigning permanent duties.

- (b) The Bureau had not followed a specific procedure when making recruitment for the post of drivers.
- (c) A Transport Consultant had been recruited from outside on contract basis without filling the vacancy for the post of Transport Officer of the Bureau which existed for more than 2 1/2 years from June 2008 to date.

#### **2:2:6 Budgetary Controls**

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It was observed that according to the following matters the budget had not been made use of as an effective instrument for the activities of the Bureau.

- (i) During the year under review, Bureau had spent a sum of Rs.89, 587,722 under 4 recurrent items of expenditure exceeding the limits on expenditure approved by the Board of Management without the appropriate approval.
- (ii) Even though a sum of Rs.25, 410,000 had been provided, it was observed that during the year under review, no expenditure was incurred in 6 instances under capital expenditure.
- (iii) A sum of Rs. 99,313,244 had been spent under capital expenditure without making provision for 10 items of expenditure.
- (iv) The estimated revenue under 3 items of revenue amounted to Rs. 210,800,000 whereas actual revenue amounted to Rs.13, 190,790. Thus, the estimated revenue could not be reached by Rs. 197,609,210. In this connection, the Chairman informed that decrease in the percentage of Bank interest was the reason for decreasing revenue.

### 3. **Systems and Controls**

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The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Bureau from time to time. Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Budget
- (c) Settlement of Advances
- (d) Fixed Assets
- (e) Maintenance of Registers
- (f) Obtaining Employees on Hire Basis
- (g) Debtors / Creditors Control
- (h) Utilization of Motor Vehicles
- (i) Administration of Regional Officers
- (j) Royalty Advances
- (k) License Advances based on Excavation