

## **Geological Survey and Mines Bureau - 2015**

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The audit of financial statements of the Geological Survey and Mines Bureau for the year ended 31 December 2015, comprising the statement of the financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 18(3) of the Mines and Minerals Act, No.33 of 1992. My comments and observations which I consider should be published with the Annual Report of the Bureau in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bureau's preparation and fair presentation of the financial statements 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 Bureau's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Geological Survey and Mines Bureau as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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In disclosing provisions for gratuity in the financial statements, although the gratuity payable to the employees who have exceeded the age of retirement should be shown as current liability and the balance should be shown as non-current liability, the total provision for gratuity amounting to Rs.125,128,193 had been stated as non-current liability.

##### **(b) Sri Lanka Public Sector Accounting Standard 07**

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In case of revaluation of property, plants and equipment, although the relevant class of assets should be revalued, contrary to that, only the assets which are being used at present with zero carrying value had been revalued and a capital profit of Rs.26,361,994 had been adjusted to the Accumulated Fund.

#### **2.2.2 Failure to Disclose the Transactions with Related Parties**

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The payment of Rs.37,344,658 made for obtaining 105 employees on hired basis from an affiliated institution of the Bureau with 66 per cent ownership and the receipt of income amounting to Rs.1,230,325 in respect of maintaining that institution within a premises of the Bureau had not been disclosed in the financial statements by way of notes.

#### **2.2.3 Accounting Policies**

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An appropriate accounting policy had not been introduced for accounting of development expenditure and a sum of Rs.1,505,000 paid to a private institution three years ago for carrying out a system analysis had been stated as work-in-progress in the financial statements.

#### **2.2.4 Accounting Deficiencies**

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The following observations are made.

- (a) In recognizing the fixed assets, since the useful life of the assets had not been identified, consumables amounting to Rs.10,687,383 consumed in the preceding years had been further stated under the fixed assets.
- (b) Assets valued at Rs.2,046,540 which had been purchased for and reimbursed by the client had been brought to account as the assets of the Bureau.
- (c) Although a sum of Rs.1,321,648 received for the employees' welfare should be credited to the Employees' Welfare Fund, it had been credited to the Local Grants Account.
- (d) Even though the Orugodawatta land purchased by the Bureau at a cost of Rs.130,476,703 had been taken over by the Urban Development Authority, it had been further stated as non-current asset in the financial statements.

### **2.2.5 Accounts Receivable and Payable**

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Action had not been taken to recover the receivable balances totalling Rs.3,312,205 older than five years and to settle the payable balances totalling Rs.4,218,727.

### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following instances of non-compliance were observed.

<b>Reference to Laws Rules, and Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Section 11 of the Finance Act No.38 of 1971	Sums totalling Rs. 231,784,375 and Rs.823,562,324 had been invested in the Treasury Bills and the fixed deposits respectively as at 31 December of the year under review without the due approval.
(b) Paragraph 6(2)(a) of the Payment of Gratuity Act, No.12 of 1983	As the gratuity had been computed on the monthly gross salary , a sum of Rs.609,070 had been overpaid to an officer during the year under review.
(c) Establishments Code of the Democratic Socialist Republic of Sri Lanka.	
(i) Section 10 of Chapter XXIV and the National Budget Circular No.142 of 31 December 2008.	Although the distress loan should be paid based on the monthly basic salary, the distress loan had been paid exceeding Rs.250,000 based on the gross salary inclusive of the allowances. Accordingly, a sum of Rs.9,053,927 exceeding the amount payable had been overpaid.

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| (ii) Sections 1.4 and 1.4.1 of Chapter XXX   | Even though three officers had supplied professional services to an affiliated institution of the Bureau without permission of the Secretary and earned a sum of Rs.1,969,500 during the year under review, action had not been taken to pay the royalty as required by the provisions in the Establishments Code.  |
| (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>Financial Regulation 104 (2)      | Action in accordance with the Financial Regulation had not been taken in connection with 13 accidents caused to the vehicles of the Bureau during the year under review.  |
| (e) Section 6 (iii) of the Circular No.01/2010/01 dated 11 October 2010 of the Ministry of Finance and Planning. | Overpayment of Rs.469,300 had been made to 9 officers of the Bureau exceeding the prescribed Consolidated Allowance.  |
| (f) Letter No.PE1/000/6 dated 02 August 1996 of the Treasury   | Although the net earnings received from the earth boring and mineral explorations only should be used for the payment of incentives, the test charges and explosion test charges of Rs.144,724,836 had been utilized for the payment of incentives.   |
| (f) The letter of permission dated 10 September 2015 of the Controller of Exchange<br>Sections 2(b) , 4 and 5    | Although the local payments should be made in Sri Lanka currency from the Special Foreign Exchange Account opened in August of the year under review, contrary to that, USD 105,402 had been paid to a local institution. Further, the Controller of Exchange had given permission to maintain that account only up to 14 January 2016, whereas the relevant account had been maintained even by May 2016. Moreover, the details on that account and the relevant payment details had not been furnished to the Controller of Exchange. |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Bureau for the year ended 31 December 2015 amounted to a profit of Rs.1,037,093,870 as compared with the corresponding profit of Rs. 826,918,428 for the preceding year, thus indicating an improvement of Rs.210,175,442 in the financial results of the year under review as compared with the preceding year. The increase in royalty income and the tests income by Rs.159,831,410 and Rs.42,431,093 respectively had mainly attributed to this improvement. In analyzing financial results of the preceding years, although a decrease in the profit was shown in the year 2013 as compared with the year 2012 a continuous increase in the profit

was observed from the year 2013 to 2015. When taking into consideration the employees' remuneration, Government tax and the depreciation, the contribution of the Bureau in the year 2011 was Rs.821,150,804 and it had ceaselessly increased up to Rs.1,547,924,501 by the year 2015.

### **3.2 Legal actions instituted against or by the Bureau**

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Outside parties had filed 13 cases against the Bureau while the Bureau had filed 02 cases against outside parties.

## **4. Operating Review**

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### **4.1 Performance**

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In terms of the Mines and Mineral Act, No.33 of 1992, the main objectives of the Bureau were the exploration and mining for minerals and processing, trading in and export of such minerals.

- (a) Out of the functions of the Bureau, the progress of the preparation of geological maps, identification and assessment of mineral resources had been at a slow pace and any activity such as evaluation of commercial viability of mining, processing and export of minerals, advising the Minister on the measures to be adopted for the extraction, production and promotion of mineral on a commercial basis had not been carried out.
- (b) No activity whatsoever had been done in Vavuniya, Pankulama, Maha oya, Rakwana and Tangalle under the Geochemical Mapping 1:50,000 programme planned in the year under review. Further, any activity of the Provincial Mineral Surveying Programme relating to the Sabaragamuwa Province had not been carried out.

### **4.2 Management Activities**

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The following observations are made

- (a) Recovery of Royalty.
  - (i) It was observed in Audit that as the royalty had been computed based on the reports issued by the Controller of Explosives instead of utilizing modern technological methods, there was a risk of depriving a considerable amount of royalty in respect mining for granite.
  - (ii) The Bureau had not paid attention on the formulation of an appropriate methodology for taking relevant legal action in the instances of where mining had been done exceeding the approved amount in the licence and for the recovery of royalty for the amounts which had been excessively mined.

- (iii) Although the Bureau had computed royalty based on the market value of the minerals, the management had not taken action to revise that values subsequent to the year 2011.
- (b) Issue of Licences and Recovery of Charges
  - (i) The total licence charge and the relevant Value Added Tax and the stamp duty had been recovered along with the application prior to submitting the recommendations required for the issue of a lincence. In addition, an advance had been recovered for the royalty to be recovered on the quantity of mineral mined under the licence. As a result, a large amount of money relating to the applications for which the licences could not be issued had constantly accumulated in the Bureau. Accordingly, there were advance balances totalling Rs.111,348,683 as at the end of the year under review.
  - (ii) As a Raiding Unit had not been established to control the illegal mining, illegal mining is perpetually carried out Island-wide and the Bureau had failed to take legal action in that connection.
  - (c) A specific methodology for the determination of value of the Bank guarantees obtained for the rehabilitation of excavation sites was not available.
  - (d) A sum of Rs.3,633,770 had been spent during the year under review in order to purchase of Scientific Journals of 13 Geologists Associations of various countries relating to the years 2013 and 2014. The journals relevant to the year had not been purchased within the respective year and those had been purchased after a long delay and its benefits enjoyed by the Bureau could not be established to the audit.
  - (e) The Board of Governance had not taken required steps for the implementation of observations and the recommendations relating thereto of the Board of Survey Report of the Yakkala warehouse and the shortage of 9,925 units of 412 items had not been assessed and necessary steps had not been taken.
  - (f) A formal procedure had not been adopted for obtaining clients for the earth boring projects and promotions had not been carried out for obtaining projects at institutional level. As a result, the income of the earth boring projects had decreased by 27 per cent as compared with the preceding year.
  - (g) Out of the funds received from a foreign country for the maintenance of Earth Tremor Measurement Towers from the year 2000, a sum of Rs.6,887,885 had accumulated in the Bureau. Necessary steps had not been taken either to pay this amount to the relevant party or credit it to the income.
  - (h) The domestic sponsorship of a conference of the Comprehensive Nuclear-Test-Ban Treaty Organization had been carried out by the Bureau. The procurement activities relating to the reservation of hotel facilities had not been effected in transparent manner and the Bureau had failed to establish the existence of two institutions which

had submitted bids. Further, overpayment amounting to Rs.284,000 had been made exceeding the agreed prices of the bids.

#### **4.3 Transactions of contentious nature**

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The following observations are made.

- (a) Contrary to the Memorandum of Understanding entered into for the maintenance of Earth Tremor Measurement Towers, Pallekele, various domestic taxes amounting to Rs.215,372 had been paid from the Foreign Current Account.
- (b) An account audited by a Private Audit Firm had been used for the computation of Rs.56,915,835 paid as the incentive during the year under review and the profit therein had been overstated by Rs.31,951,689 than the profit specified in the financial statements submitted to the Auditor General. Further, a sum of Rs.8,973,399 included therein as receivable income had not been recovered even by April 2016.
- (c) The Bureau had spent a sum of Rs.953,258 as combined allowance and other expenses in respect of providing a foreign training for two officers who were not serving in the Bureau.

#### **4.4 Staff Administration**

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The following observations are made

- (a) Four officers of the Bureau had proceeded abroad for academic purposes and subsequently they had left the Bureau without completing the compulsory period of service as required by the agreement and the Bureau had failed to recover a sum of Rs.2,921,783 due to be recovered as the fines and other expenses.
- (b) The new cadre and the organizational structure had been approved by the Department of Management Services on 28 June 2013 and due to the failure to forward the relevant Scheme of Recruitment to the Department of Management Services and obtain the approval, promotions for the officers had been granted based on the previous Scheme of Recruitment.

#### **4.5 Identified Losses**

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Equipment valued at Rs.597,231 obtained by a former Director General had not been handed over and action had not been taken to recover the said loss.

#### **4.6 Commencement of the Projects on the lands not properly vested in**

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Even though the agreement specified that, developments effected in the land and the ownership of the land is entitled to the lessor at the termination of the period of lease and the lessee does not have the right to demand any allowance in that respect, the Bureau had constructed 02 buildings on a land obtained on lease spending a sum of Rs.46,035,957.

## **5. Accountability and Good Governance.**

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### **5.1 Internal Audit**

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The following observations are made

- (a) Although an Internal Auditor who is responsible to the Chairman of the Bureau had been appointed for internal audit purposes, a permanent audit staff had not been appointed to assist him. Further, adequate training programmes had not been conducted for the improvement of professional knowledge of the Internal Auditor on the subject of auditing.
- (c) Replies for six internal audit queries had not been given by the relevant divisions and a formal methodology for reviewing the progress of the future actions relating to the internal audit disclosures could not be observed.

### **5.2 Unresolved Audit Paragraphs**

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Action had not been taken to recover the royalty and penalty for delays amounting to Rs.44,727,062 that remained recoverable for the years 2013 and 2014 in respect of a licence issued to the Sri Lanka Land Reclamation and Development Corporation for sea sand mining. Similarly, action had not been taken to recover the royalty of over Rs.100 million remained recoverable for the stock 2,269,563 cubic feet. stock of sand specified in the Board of Survey report as at 31 December 2014.

### **5.3 Budgetary Control**

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Variances ranging from 16 per cent to 4,812 between the budgeted and actual income and expenditure were observed , thus indicating that the budget had not been made use of as an effective instrument of management control.

### **5.4 Tabling Annual Reports**

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The Annual Report for the year 2013 had not been tabled in Parliament even by May 2016.

## **6. Systems and Controls**

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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 control.



## Area of System and Control

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## Observations

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(a) Accounting	Failure to verify stock physically and bring to account.
(b) Staff Administration	Action had not been taken according to the Circulars of the Department of Management Services and recruitment had not been made properly.
(c) Stock Control	Issue of goods directly to the relevant Divisions without taking over such goods by the stores.
(d) Fixed Assets Control	Failure to revalue equipment received from foreign countries and bring them to account
(e) Operating Control	<ul style="list-style-type: none"> <li>(i) Failure to establish field official tours.</li> <li>(ii) Payment of fuel expenses without establishing the details on running of Motor vehicle.</li> <li>(iii) Failure to disclose the illegal mining and the violation of conditions of the licence through the investigation reports.</li> </ul>
(f) Issue of Licences	<ul style="list-style-type: none"> <li>(i) Issue of licences without obtaining the Environmental Clearance Certificates.</li> <li>(ii) Poor follow up action on licences</li> <li>(iii) Issue of transport permits on forged signatures and failure to maintain a register for the acceptance of applications.</li> </ul>