G S M B Technical Services (Private) Limited -2017/2018

The audit of financial statements of G S M B Technical Services (Private) Limited ("Company") for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 statement of comprehensive income and retained earnings and cash flow statement for the year ended 31 March 2018 and a 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. My observations which I consider should be furnished to the Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board of Directors' Responsibility for the Financial Statements

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The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium- size Enterprises 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

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. 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

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

(a) Action had not been taken to recover the receivable balances of Rs. 19,677,602 more than one year and action had not been taken even to identify the impairment loss that could be occurred by it and to adjust it to the accounts, in terms of Section 11: 21 in Chapter 11 of the Standard.

(b) Even though fully depreciated fixed assets costing Rs. 51,796,097 had been continuously used by the Company in terms of Section 17.19 in Chapter 17 of the Standard, action had not been taken to re- evaluate the useful life and the residual value of the asset for the presentation of fair value in the financial statements.

(c) The information on related parties and relationships of the company with their controlling boards and transactions with those parties and receivable and payable balances had not been disclosed in the financial statements through notes as per Section 33.9 in Chapter 33 in the Standard.

(d) Opening and closing balances of interest receivable in the year had been understated by Rs. 2,489,764 and Rs. 2,721,586 respectively and even the interest income for the year had been understated in the accounts by Rs. 237,313 as the interest income for fixed deposits was not accounted on accrual basis.

(e) The provisions for gratuity had been overstated in the accounts by Rs. 89,000 as the over provisions for the period of one year for 08 officers when provisioning gratuity in the year under review.

(f) The Economic Service Charge paid in the preceding years but could not be set- off for income tax, amounting to Rs. 262,860 had been stated in the accounts as a receivable balance furthermore.

(g) Income tax payable had been understated by Rs. 468,959 as the errors on calculating capital allowances when calculating income taxes.

(h) The differences in the balances of following items were observed as per financial statements and relevant fixed asset register and tax reports.

Subject	**As per financial statements**	**As per fixed asset registers/ tax reports**	**Difference**
	Rs.	**Rs.**	**Rs.**
Field equipment	30,348,748	29,719,328	629,420
Value Added Tax payable	9,005,991	7,879,099	1,126,892
Economic Income	823,872,505	828,484,677	4,612,172

Service Charge -	Liabilities	1,186,660	1,209,652	22,992
	Amount receivable	5,497,285	4,142,423	1,354,862
Nation Building Tax-	Income	823,872,505	828,484,677	4,612,172
	Liabilities	16,477,724	16,569,694	91,970
	Amount payable	1,668,013	1,759,983	91,970

(i) Balances of Rs. 4,819,047 that remained without recover for the period of 01 year to 06 years that stated in the financial reports as balance receivable for related parties had not been stated as the balance payable in the financial statements in the relevant entities and those balances had not been confirmed by relevant entities. Further, sum of Rs. 11,775,525 as at the end of the year under review of trade and other debtors had not been confirmed from debtors.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of GSMB Technical Services (Private) Limited as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium- size Enterprises.

2.1.1 Reporting on other Legal and Regulatory Requirements

I state the following matters, in terms of Section 163(2) of the Companies Act No.07 of 2007.

(a) The basis for the opinion and the scope and extent of audit are as stated above.

(b) In my opinion,

I had obtained all the information explanations required for audit and, as indicated by my examination, the Company had maintained proper accounting reports under the matters stated in the paragraph on basis for the qualified opinion and,

The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No.07 of 2007.

2.2 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances with laws, rules and regulations were observed.

	Reference to Laws, Rules and Regulations	Non-Compliances
(a)	Section 7(b) of Stamp Duty Act No. 12 of 2006	Action had not been taken by the Company to register for stamp duty or remit the recoverable stamp duty by recovering to Commissioner of Inland Revenue when paying remuneration over Rs. 25,000.
(b)	Financial Regulations 136 and 138 of Financial Regulations of Democratic Socialist Republic of Sri Lanka	The incidents that not approving or certifying vouchers when settling employee advances and purchasing advances of the Company had been observed.
(c)	Finance Circular No. 03/2015 on 14 July 2015	In contrary to the provisions without obtaining approval required as per Circular, ad-hoc sub imprest of Rs. 4,173,098 that exceeding maximum limit of Rs. 100,000 at 09 incidents and petty cash imprest of Rs. 775,000 that exceeding maximum limit of Rs. 25,000 at 14 incidents had been given in the year under review and Rs. 249,355 had been paid at 15 incidents that exceeding the limit of petty cash expenses of Rs. 5,000. Further, though the advances issued related to the year 2017/2018 should be settled by 31 March 2018, there were 44 unsettled advance balances of Rs. 4,054,121 at that date.
(d)	Public Enterprises Circular No. PED/12 on 02 June 2003	
	(i) Paragraph 5.2	Budget had not been presented along with Budgeted statement of financial position the Budget estimate.
	(ii) Paragraph 8.3.3	Although the salary of 02 months was the maximum of bonus that should be given to employees, in contrary to that,

		salary of 03 months had been paid Rs. 7,879,524 in year 2016/2017 by considering as bonus. Further, the attendance had not been considered when paying bonus for all employees that were contract employees of the Company.
(e)	Public Enterprises Circular No. PED 03/2017 on 11 December 2017	An amount of Rs. 1,692,225 had been paid on 29 December 2017 by Rs. 13,500 per an employee as bonus for that year before identifying profits by preparing accounts for the year ended 31 March 2018.
(f)	Public Enterprises Circular No. 03/2015 on 17 June 2015	
	(i) Paragraph 2.2	Although the allowances of chairman and Board of Directors should be paid by deciding on the concurrence of minister of line ministry and the approval of the finance minister for the public enterprises of F category, a monthly allowance of Rs. 100,000 and Rs. 6,000 per a director and participatory allowances for other 03 directors per Rs. 11,000 had been paid without such an approval.
	(ii) Paragraph 2.8	An amount of Rs. 300,000 per Rs. 100,000 honorary allowance for three directors of the company had been paid with approval of Board of Directors without the recommendations of the line minister and the approval of the financé minster.
(g)	Public Enterprises Circular No. PED/57 on 11 February 2011	
	(i) Paragraphs 02 and 03	Annual promotional campaign or Programme of implementing social responsibilities had not been presented for the approval by preparing.
	(ii) Paragraph 05	An amount of Rs. 356,654 had been spent in the year under review by exceeding the budgeted limit of Rs.

	3,648,000 for the promotional and advertising expenses of the company.
(iii) Paragraph 06	The approval of the finance minister had not been obtained for the donations/ sponsors over Rs. 100,000 that given to 04 non-government institutions and Rs. 3,195,264 spent for the purchase of 3,768 chairs for the distribution to labourers that worked in Polonnaruwa sand mining projects.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the net profit of the Company for the year under review amounted to Rs. 83,956,128 as compared with the corresponding net profit of Rs. 44,976,120 for the preceding year, thus indicating an improvement of Rs. 38,980,008 in the financial result in the year under review as compared with the preceding year. Though the administrative expenses were increased by Rs. 14,206,920, the increase of the income from the projects by a sum of Rs. 68,050,331 had been the main reason for the improvement of the above financial result.

4. Operating Review

4.1 Performance

4.1.1 Planning

A Corporate Plan for the Company had not been prepared as per Section 5.1 of Public Enterprises Circular No. PED/12 on 02 June 2003 and an Action Plan had not been prepared as per Public Finance Circular No. 01/2014 on 17 February 2014.

4.1.2 Activity and Review

Following observations were made.

(a) The following matters were observed relating to the key function of the Company of mining sand and projects of selling sand and on the impact towards the Sand Market.

(i) The permission had been granted by the Supreme Court to the Company for mining sands in the Manampitiya area in the year 2008 with the objectives of controlling flood in the Polonnaruwa District and eliminating the shortage of sand in other districts. However, based on a decision made by the District Coordination Committee that sands should be issued by giving priority for development projects in Polonnaruwa District, the greater amount of sand mined had been issued to 03 companies located in Polonnaruwa and the details as to whether the sand was utilized for which type of function, were not owned by the Company. Further, only 15 per cent out of the sand production of there had been supplied out of the district due to the decision made by District Coordination Committee that the transportation of sand out of the Polonnaruwa District only for 03 days per week. Because of this, there were shortage of sand in other districts and even it had been a reason for the increase in market prices of sand.

(ii) Although the income of Rs. 625,207 was received from 02 mineral mining and selling projects that assigned to the Company, it had been lost by Rs. 638,553 as the expenditure was Rs. 1,308,760.

(b) The website of the Company had not been used and even updated as the source of advertising for the promotion of the function that should be implemented by the Company.

(c) Although an amount of Rs. 7,864,591 had been spent from the previous year to the year under review for the Wellawaya Kotigambokka Quartz Deposit Mining Project for leasing a land for storing quartz, installing bridges of scale, maintaining security activities and other activities, the relevant mining activities had not been commenced by the audited date of 15 October 2018.

4.2 Management Activities

Following observations were made.

(a) Although the activities of the sand mining of the Yan Oya reservoir Project had been assigned to the Company as per the Cabinet Decision No. අමප/17/0530/704/009 on 21 March 2017, the Cabinet Decision had been suspended on 27 June 2017 as there were no sufficient strength and equipment facilities to the Company in order to implement that task properly. Accordingly, the licenses had been given to miners in private sector and mining license for the land with extent of 27.5 hectares had been received even by the Company. However, only 911 cubes of sand were mined from May 2017 to February 2018 that received mining license.

(b) Following observations were made in respect of the consultancy services and testing of the projects that accepted to implement by the Company.

(i) There was no proper advertising or proper methodology for the acceptance of the project and even the profit policy for the Company had not been decided.

(ii) A loss of Rs. 1,448,226 had been occurred as the income received from the projects implemented during the year under review was Rs. 1,202,988 and expenditure was Rs. 2,651,214. Spending Rs. 2,115,000 from projects as consultancy fee for obtaining the service of specialists of external parties in respect of these projects had been reasoned for incurring losses. Although the specialist service of external parties had been taken, agreements had not been entered into for that.

(c) Action had not been taken to provide replies for 09 audit queries referred to the Chairman of the Company until 30 August 2018. Further, action had not been taken to rectify the deficiencies shown by the audit.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) Even though activities such as retail price of sand, distribution, supply of sand, purchasing Tipper vehicles, salaries of the employees of the Polonnaruwa Sand Projects should be decided by the Board of Directors, contrary to it, the Company had taken action on the decisions made in the District Committee Meetings conducted in the District Secretariat Office, Polonnaruwa.

(b) The officers of the Company had been participated on invitation for 14 monthly environmental committee and post evaluation committee meetings that held with the leading of District Secretaries of 04 districts that the mineral projects implemented by the Company. However, a sum of Rs. 659,000 of the allowances worth Rs. 5,000 for committee members and Rs. 2,000 for 07 management assistants had been paid by the Company. Even Treasury approval had not been obtained for this payment.

(c) Although the Board of Directors had approved to pay Rs. 250,000 for a New Year festival organized by Ministry of Megapolis and Western Development, that payment had been made to another private party. The approval of relevant payment and payment to the private party had been controversial when not presenting a proper request or an estimate.

(d) An amount of Rs. 4,248,572 ha been incurred as welfare expenses during the year even for food and accommodation expenses and other expenses that had to be incurred in the official travelling when spending excessive money of Rs. 30 million as subsistence allowance, fuel allowance and transport allowance for the official travelling during the year. It was observed that most of these expenses had been incurred uneconomically without any control and the cash were reimbursed by presenting expenditure bills. It was revealed in the sample audit tests that there were incidents of obtaining triple rooms at a high charge for daily at Rs. 21,000 per one officer and the incidents of excess payments for rooms more than the number of officers participated as not participating in only the minimum staff that should be participated for the official and not considering the economy when providing accommodation facilities.

(e) A contract of rehabilitation and development of Mongillaru Oya had been handed over to a private company by Department of Irrigation and the selling of 20,000 sand cubes that removed from the Oya in that matters had been assigned to G.S.M.B. Technical Services (Private) Limited by that company. Accordingly, though the 20,000 cubes of sand had been removed in total and only an amount of Rs. 5,897,000 had been paid by Technical Services Company to the private company for 5,897 cubes of sand out of it, the income relating to the remaining 14,103 cubes of sand valued at Rs. 28,915,663 had not been received to the Company and any recorded information had not been owned by the Company. Any action had not been taken in that regard by the Company.

4.4 Apparent Irregularities

Following observations were made.

(a) when the official transport facilities were provided for two chairmen that served to the Company during the period of February 2015 to June 2018 by the Geological Survey and Mines Bureau, a sum of Rs. 4,800,000 had been paid by the Company to 06 private entities stating that giving vehicles on rental basis at monthly charge of Rs. 150,000 and Rs. 200,000 for that period. Even a confirmation had not been received there whether the relevant vehicles were used. However, it was further observed that Rs. 600,000 out of it had been paid back to the Company by a chairman on 09 August 2018. The procurement procedure had not been followed when getting vehicles on rental basis for the chairmen and the rental agreements had not been entered into for 05 vehicles obtained such.

(b) Although any payment except approved allowances could not been paid to the Board of Directors as per Section 2.5 of Public Enterprises Circular No. 3/2015 on 17 June 2015,

(i) An amount of Rs. 240,000 worth Rs. 20,000 each had been paid monthly to the chairman for the year under review under Manampitiya Sand Mining Project.

(ii) An amount of Rs. 425,000 that paid by a Director for a post graduate course had been reimbursed to that Director. The relevant post graduate had not been completed by the Director even by 31 July 2018.

4.5 Staff Administration

Following observations were made.

(a) Even though it had lapsed over 17 years after the establishment of the Company, the approved Organizational Plan and the Scheme of Recruitment had not been prepared and approved in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003.

(b) The staff of the Company should consist of 05-06 officers including the Chief Executive Officer in terms of the approval of the Cabinet of Ministers for the establishment of the Company and employees should be recruited on contract basis for the projects executed by the Company. However, the entire staff of the Company being 182, including 136 employees of the projects as at 31 July 2018 had been deployed in service on contract basis, contrary to it. There were 77 employees recruited on contract basis from 01 April 2017 to 31 July 2018 without any need analysis or Treasury approval and even the qualifications of those officers had not been confirmed.

(c) Allowances amounting to Rs. 627,250 had been paid in the year by stating that the service of 06 officers of the Geological Survey and Mines Bureau were obtained despite there was a sufficient staff in the Company to execute the function and duty of the Company and it was not confirmed that what the duties executed by the relevant employees.

(d) 04 officers who were exceeding 60 years had been employed without the approval of the Cabinet.

(e) Appointments had been made on contract basis by the Company to the persons selected in an improper manner by the Geological Survey and Mines Bureau and had been deployed in service in various posts in the Bureau and 45 employees had been deployed in service in that manner by 31 July 2018.

4.6 Idle and Underutilized Assets

A Loader Machine purchased for a sum of Rs. 8,883,520 in the year 2009 for loading sand had been utilized for the Manampitiya Sand Project. This machine had been utilized for minor work of the site without using for loading sand and Loader Machines had been obtained from external parties on lease basis for loading sand.

4.7 Resources of the Company given to other Government Institutions

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An amount of Rs. 294,300 for a driver attached to the Ministry of Defense and recruited by the Company and Rs. 232,800 for the coordinating officer attached to Task Force on Prevention of Kidney Disease in Presidential Secretariat until 27 August 2018 had been paid by the Company.

4.8 Uneconomic Transactions

An Annual General Meeting of shareholders had been held as per Section 133 of Companies Act No. 7 of 2007 and annual get-together had been held with that and an expense of Rs. 1,031,445 had been incurred for that.

4.9 Operating Activities

Following observations were made.

(a) Board approval had not been obtained when giving a sum of Rs. 665,000 of petty cash imprest for 29 officers of the Company.

(b) Action had not been taken to distribute 484 chairs valued at Rs. 410,432 out of the chairs purchased for the distribution to sand mining labourers in Polonnaruwa.

4.10 Identified Losses

Following observations were made.

(a) An agreement had been entered into with Geological Survey and Mining Bureau for the providing services for Yan Oya Project by the Company and contrary to that agreement, 17 security officers and a project engineer had been excessively deployed. However, Rs. 95,950 had been a loss to the Company as its expenditure was Rs. 20,382,617 though the income received from supplying those services was Rs. 20,286,667.

(b) Project of Supplying Soil to the Southern Express Highway

Following observations were made.

(i). A project of supplying soil to Southern Express Highway that accepted by a private entity to execute had been accepted by the Company from May 2017 without any reason or a Board approval.

(ii). An amount of Rs. 1,103,895 that charged by the Company for the initial environmental survey report had been refunded there when refunding the money spent by that private entity and Rs. 128,895 had been a loss to the Company through refunding that money as the Value Added Tax and Nation Building Tax of Rs. 128,895 that included in it had been paid to the Commissioner of Inland Revenue.

(iii). As an amount of Rs. 3,855,425 that received to the Company for the rehabilitation of lands when supplying soil was credited to the revenue instead of crediting to a deposit account, that amount had been a loss to the Company since the Value Added Tax and Nation Building Tax of Rs. 502,881 had to be paid.

(iv). Although the project was closed in the month of July 2017, expenses such as salary, security expenses and housing rentals of Rs. 5,491,433 had been incurred by the month of July 2018 as it took more than one year for the rehabilitation and other activities in the mined land. Rehabilitation activities had not been completed by the audited date of 31 July 2018.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Due to failure of the GSMB Technical Services (Pvt) Limited in being aware of the United Nations Sustainable Development Agenda for the year 2030, action had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Although financial statements and draft annual report should be presented to the Auditor General within 60 days after ending the financial year as per the section 6.5.1 of the Public Enterprises Circular No: PED/12 dated on 02 June 2003, the financial statements for the year under review had been presented to the Auditor General on 20 August 2018 and the draft annual report had not been presented.

6.2 Internal Audit

Action had not been taken to obtain the approval of Board of Directors by preparing internal audit plan before beginning of the accounting year. Although the internal auditor of Geological Survey and Mining Bureau had worked as internal auditor of the Company for 05 months, the audited works had not been implemented under 07 key fields of the Company as scheduled.

6.3 Audit Committee

Although audit committee meetings should be held at least 03 months each as per Section 7.4.1 of Public Enterprises Circular No: PED/12 on 02 June 2003, only 02 audit and management committee meetings had been held for the year.

6.4 Procurement and Contract Process

6.4.1 Procurements

Following observations were made.

(a) The Procurement Plan had not been prepared comprehensively as per Guideline 4.2.1 of Government Procurement Guidelines 2006 and had not been updated. Procurement Timetable had not been prepared as per Procurement Guideline 4.2.2. Further, the approval of Board of Directors had not been obtained for the Procurement Plan and purchases had not been done as per Procurement Plans.

(b) 28 vehicles had been obtained on rental basis for the employees of the Company without following procurement procedures or specific methodology. Rental of Rs. 17,874,853 had been paid for rental vehicles in the year under review and when paying an amount of Rs. 6,215,211 related to 13 vehicles, it had not been confirmed that relevant vehicles were used through the certificates of officers and running charts.

6.4.2 Abandoned Projects

Although agreements were entered into on 26 August 2016 in respect of 02 projects that given mobilization advance of Rs. 2,584,750 on 03 February 2015, the project had been abandoned without doing any task in relation to implement the projects.

6.5 Budgetary Control

As a variance ranging from 13 per cent to 1898 per cent was observed when comparing the budgeted income and expenditure and the actual income and expenditure of the Company, the budget had not been made use of as an effective instrument of management control.

7. Systems and Controls

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

Areas of Systems and Controls	Observations
(a) Financial Control	(i) Payment that should be done by cheques had been paid by petty cash. (ii) Use of petty cash for field inspection expenses and expenses of purchasing fixed assets. (iii) Action had not been taken to secure cash collected by regional offices and bank without any delay. (iv) A methodology to pay subsistence allowance in official travels had not been prepared. (v) Not obtaining prior approval from Divisional Heads or Department Heads for official travel programmes and their estimates.

	(vi) Not paying attention on economy when incurring expenses.
	(vii) Not confirming the donations that given to various public institutions and organizations through the receipts obtained from those public institutions.
(b) Human Resource Management	Not paying attention to prepare human resource plan, Schemes of Recruitments and Promotions.
(c) Vehicle Control	(i) Not maintaining vehicle running charts properly.
	(ii) Not maintaining running charts details of vehicles and documents related to use of rental vehicles.
	(iii) Not entering into agreements properly with vehicle suppliers.
	(iv) Not deciding the specifications that should be included in the vehicles obtained beforehand.
(d) Giving Advances	(i) Giving advances again when the advances taken before were not settled.
	(ii) Not maintaining Advance registers.
	(iii) Follow up actions in relation to unsettled advances was weak.
(e) Purchasing Control	(i) Payment had been done based on goods order or prices presented instead of paying after receiving supply invoice and Good Received Note.
	(ii) Issuing advances for purchases had been done in the name of relevant supplier.
	(iii) Action had not been taken to obtain securities/ enter into agreements when paying purchasing advances.