

GSMB Technology Services Company (Private) Limited - 2023

1. Financial Statements

1.1 Qualified opinion

The audit of the financial statements of the GSMB Technology Services Company (Private) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, , including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities.

1.2 Basis for qualified opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope (Auditor's responsibility for the audit of financial statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting deficiencies

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (a) According to paragraph 19 of the Sri Lanka Accounting Standard 17 for Small and Medium-sized Entities, although the company had used continuously 1,109 number of fully depreciated non-current assets with a total cost of Rs.90,853,735, action had not been taken to reassess the useful life and residual value of the assets to present their fair value in the financial statements. | According to the accounting standard, since the entire asset class should be revalued, the company has not undertaken this task, considering the cost, time, and the economic benefits that would result from the revaluation. Additionally, it has been assumed that there is no significant difference between the carrying value and the fair value of the assets. | Fair value of assets should be presented in accordance with accounting standards. |
| (b) Although the cost of government shares and permit fees for the Manampitiya sand project amounted to Rs.86,352,396, this expense had been reported in the financial statements as Rs.78,072,349, decreasing an amount of Rs 8,280,047. As a result, the profit had been overstated by same amount. | This is because of the adjustment of the over-allocation we have resversed for the year 2022. | The government share should be accurately calculated and recorded in the accounts based on the actual quantity of sand excavated. |
| (c) Although the Kantale sand excavation project had been inactive since 10 July 2022, and there was no sand stock as at 31 December 2023, it had been reported a sand stock value of Rs.10,603,916 in the financial statements for the year under review. This resulted in an overstatement of stock by that amount and an understatement of profit by the same figure. No corrective action has been taken regarding this stock shortage to date. | A special investigation regarding the Kantale sand excavation project has been conducted by a committee. The investigation report has been submitted to the Chairman, the Chief Executive Officer, the Audit and Management Committee, the Board of Directors, and the Ministry of Environment. Based on the recommendations and guidelines from this report, it is expected that future actions will include reconciling the stock shortages and taking necessary corrective measures. | A physical verification of stock should be carried out to verify accuracy and necessary adjustments should be made in the financial statements and action should be taken against officials responsible for stock shortage. |

1.6 Accounts Receivable and Payable

1.6.1 Accounts receivable

| Audit Issue | Management Comment | Recommendation |
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| (a) According to the financial statements of the Company, a balance of Rs.6,679,175 had been shown as receivable from the Geological Survey and Mines Bureau. However, the financial statements of the Bureau do not reflect any balance payable to the Company. | The balance shown here reflects the amount due to us related to the excess quantity of sand cubes paid as part of the government share. The Geological Survey and Mines Bureau has agreed to deduct this amount from future payments, and this reconciliation has been done based on documents confirmed by the Bureau. | Necessary steps should be taken to settle the receivable and payable balances of the two institutions. |
| (b) As at the date of this report, no action had been taken to recover a sum of Rs.114,579 in distress loan installments and interest due by the end of the year under review from two employees whose services had been terminated. | Legal action has been taken to recover the loan amount of Rs.94,844. The gratuity payments due to the employee are sufficient to offset the outstanding loan balance. | Necessary steps should be taken to recover the loans and interest receivable. |
| (c) In the trade receivable balances of Rs.31,367,131, there were 86 balances totalling to Rs.4,136,387 for more than 10 years and 78 balances totalling to Rs.6,837,177 for 5-10 years. Action had not been taken to recover these balances even by the date of this report. | These balances will be settled in the financial year 2024 and some balances compared to previous years have been settled in the financial year 2023. | Necessary steps should be taken to recover the balance receivable early. |

1.6.2 Accounts Payable

| Audit Issue | Management Comment | Recommendation |
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| (a) According to the financial statements of the Company, the balance payable by the Company to the Geological Survey and Mines Bureau amounted to Rs. 1,487,602. However, the financial statements of that bureau recorded an outstanding balance of Rs.26,928,891 as receivable from the Company. | The amount of Rs. 1,487,602 stated in the financial statements represents the field inspection fees payable for November and December related to the Manampitiya project. However, the amount of Rs. 26,928,891 mentioned in the financial statements of the bureau has not been paid by us to the bureau. | Arrangements should be made to settle the payable and receivable balances of the two institutions early. |

- (b) Between 2017 and 2023, advances totalling to Rs.9,688,220 had been received to the Company by 149 institutions and individuals for obtaining various project services. Out of this, 47 number of advances amounting to Rs.3,000,636 had remained over five years. These advances had not been settled even at the date of this report.
- The Board Paper No. GSMBTS/185/15, dated on 11 January 2024, had requested approval to recognize those deposit funds as income. However, the Board directed that the matter to be resubmitted to the Audit and Management Committee for further review.
- Advances should be checked and if services should be provided, action to be taken to provide the service and if services should not be provided, arrangements should be made to settle.

1.7 Non-compliance with laws, rules, regulations and management decisions etc

| Reference to Laws, Rules | Non-compliance | Management Comment | Recommendation |
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| Regulations etc. | | | |
| (a) Payment of Gratuity Act No. 12 of 1983 | Although the gratuity calculated should have been paid within 30 days of the termination date for the, the gratuity amount of a geologist who ended service on 31 January 2023 amounting to.146,690 had not been paid even by the end of the financial year under review. | The gratuity amount has been forwarded to the accounts department for payment. I would like to inform you that according to the Payment of Gratuity Act, the gratuity amount will be given within 30 days . | According to the provisions of the Act, the gratuity should be paid within 30 days from the date of termination of service . |
| (b) Paragraph 3.8 of Public Enterprises Circular No.01/2021 (ii) dated 27 September 2023 | (i) According to the circular, the Chief Executive Officer (CEO) of the Company should be appointed on contractual basis. However, the CEO had been appointed on permanent basis effective from 15 September 2023. | The Chief Executive Officer of the institution was appointed by the Minister of Environment. Since the position of CEO is one of the 35 designated positions eligible for permanent employment, it was established on permanent basis with the approval of the Board of Directors of the institution and parent Company. | The Chief Executive Officer of the Company should be appointed as per circular provisions . |
| | (ii) Although the administrative and financial manual, approved by the Board of Directors of parent company should have been prepared | No comments received. | The Administrative and Financial Manual should be prepared with the concurrence of the |

with the concurrence of the Department of Public Enterprises, it has not been prepared yet.

Department of Public Enterprises.

- (c) Public Enterprises Circular No. 06/2022 dated 06 October 2022
- An officer aged 63 years had been recruited as the CEO of the Company on 01 September 2023 on contract basis and confirmed on 23 October 2023.
- The Chief Executive Officer of the institution was appointed by the Minister of Environment. Since the position of CEO is one of the 35 designated positions eligible for permanent employment, it was established on permanent basis with the approval of the Board of Directors of the institution and parent Company.
- Officers above 60 years of age should not be recruited.

2. Financial review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.159,733,997 and the corresponding profit in the preceding year amounted to Rs. 97,081,603. Therefore, an improvement amounting to Rs.62,652,394 of the financial result was observed. The reasons for the improvement are increasing other non-operating income by Rs.47,918,464 while the income from projects decreasing by Rs.10,536,583 and decreasing project expenses by Rs.45,415,698 while increasing administrative expenses by Rs.20,313,497.

3. Operational review

3.1 Operational inefficiencies

| Audit Issue | Management Comment | Recommendation |
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| (a) The Sri Lanka Mahaweli Authority entrusted the company with the task of removing a sand deposit of 103,128 cubic meters under a project aimed at preventing sand mining and conserving riverbanks, which posed a threat to the protective bund of the Mahaweli River in the Suriyapura Grama Niladhari division of the Kantale Divisional Secretariat in 2019. However, from 10 July 2022, until the end of the year under review, no sand mining activities had been carried out. During this period, the Company had incurred expenses amounting to Rs.4,773,910 for | There was a delay in getting the permits for this project from the government agencies, but due to the non-granting of permission by the Mahaweli Authority of Sri Lanka for the use of land, only 53.6 percent of the amount of sand requested for sand mining has been mined. Meanwhile, the construction of erosion control is about 75 percent completed. The institute worked for the completion of this project after completing the further work, and the project will be executed after the | Efforts should be made to achieve the desired objectives with proper planning of the project and necessary measures should be taken promptly regarding possible damage to the dam in case of flood. |

salaries, allowances, house rent, office expenses, and travel costs. Furthermore, the Company had planned to construct three erosion barriers along the Mahaweli River under a budget of Rs.168,254,363. However, only one barrier had been completed, with the progress on the remaining two barriers at 75 percent and 54 percent respectively. The contractual deadlines for these projects have now passed, and since the construction of the two remaining barriers has not been completed, there was concern that the Mahaweli River bund could be damaged during flood conditions.

permission of the necessary government institutions was obtained.

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| (b) | The mining activities of the Muthur Sand project which the company had implemented, had been discontinued from April 2022 and it had incurred expenses of Rs.1,569,372 for salaries, allowances, fuel, electricity, house rent etc. by the end of the year under review, without carrying out any sand mining activities. | The Internal Audit Division of the Institute, the Internal Audit Division of the Geological Survey and Mining Bureau, and the Ministry of Environment are conducting investigations into the irregularities that have occurred in the Muthur Sand Mining Project. Further action will be taken according to the conclusions of those examinations . | Action should be taken to achieve the desired goals with proper planning of the project. |
| (c) | The Kotikambokka Thiruvana deposit mining project which had been planned to be commenced in 2017, had not been commenced even by the date of this report and expenses of Rs.24,823,325 had been incurred. Before the commencement of the work of that project in the year 2017, the weigh bridge purchased for Rs.2.2 million had become an idle asset and its electronic components scale had been removed by the Company that bought the scale, to calibrate the scale in the year 2019 and had not been returned to the Company. | The action related to the mining license has been commenced dealing with the institutions associated with the project and the mining license has been requested on 13 October 2023 from Geological Survey and Mines Bureau. | The project should be commenced soon and the electrical equipment scale of the weigh bridge should be recovered. |
| (d) | The loader machine owned by the Manampitiya Sand Mining Project worth Rs.8,883,520 had been inactive since 16 July 2017 and had not been repaired and put into to use or disposed of. | In the board meeting held on 23 October 2023, it was recommended that this loader vehicle is suitable to be repaired or sold through a proper procurement method. Accordingly, an assessment of the current market | The machine should be repaired and put into use or disposed of . |

price of the loader has separately been requested from the government valuation department on 26 Mach 2024. The department had informed via telephone on 05 April 2024 that the Gampaha regional office will be informed and necessary arrangements will be made for this.

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| (e) | Although the Company had recognized that a motorcycle and a folder costing to Rs.104,650 and Rs.567,000 had been disappeared since 2014, the parties responsible had not been identified and no action had been taken to recover the losses. | An internal committee has been appointed to study and provide a report regarding the motorcycle and the folder reported as disappeared and the final report given by the relevant committee will be submitted to the management and necessary immediate steps will be taken. | The parties responsible for the loss of assets should be identified and recovery of losses should be made. |
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3.2 Management inefficiencies

| Audit Issue | Management Comment | Recommendation |
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| (a) A project was planned from the year 2020 in collaboration with the Postgraduate Institute of Science of the University of Peradeniya with the aim of excavating the calcite deposit in Rajawaka Reserve in Balangoda Divisional Secretariat Division of Ratnapura District, adding value and exporting it and using it locally. By the end of the year under review, the company had incurred expenses of Rs.3,304,612 for consultancy service fees to the Post Graduate Institute of Science, transportation, traveling expenses, composite allowance examination fees etc. and had abandoned this project. | Due to practical difficulties, spending money on that project has been completely discontinued, and a committee has been appointed to look into the actual cost of the project . As per the recommendations of the said committee, further action will be taken. | Action should be taken against the officials who commenced the project without proper study and the officials who conducted the project. |

- (b) In order to start a sand sales center in Kantale Sirimangalapura, 06 employees had been assigned from June 2023 and expenses of Rs.1,764,297 had been incurred for salaries and wages, fuel, house rent, welfare, electricity, etc. The incurred expenses had been wasted due to the decision taken to discontinue the project in January 2024.
- The Kantale project has been discussed in the board of directors meeting held on 29 May 2023 to proceed according to the instructions given by the minister in charge and instructions have been given to commence operations from 01 July 2023 . After reporting to the Board of Directors dated 26 January 2024 about the inability to commence the project due to the delay in preparing the necessary legal background for the project, the Board of Directors has given instructions to conclude the work of the project .
- Action should be taken against the officials who commenced the project without proper study.

3.3 Human Resource Management

| Audit Issue | Management Comment | Recommendation |
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| (a) The Company had invited applications for the position of Marketing and Planning Manager on a contract basis through a newspaper advertisement, and an interview was held on 19 September 2023. However, by the audited date of 08 February 2024, the Company had not yet proceeded with the recruitment for the said position. Subsequently, a new position of Planning Manager, which was not included in the approved staff structure, was created, and a lady officer who was already in service had been appointed on permanent basis on 09 October 2023. This appointment had been made without obtaining the approval of the Board of Directors. | At the time of conducting the interview, amendments to the scheme of recruitment of the organization were being made with the approval of the Board of Directors. As per the needs of the organization, the revised scoring sheet, agreed upon by the interview panel, was used for the interview process. Based on the cost management objectives of the organization, it was deemed unnecessary to make an appointment for the Marketing Manager position. Currently, the responsibilities related to the planning functions of the organization are being handled by the Planning/Coordination Manager, while other activities of the marketing department are overseen by the Technical Director. | No appointments shall be made to posts other than those on the approved staff without obtaining the approval of the Board of Directors. |
| (b) When the company made permanent appointments for a staff of 35 on 09 October 2023, it had not invite applications from all internal employees, nor had been these candidates evaluated by an interview panel. Additionally, qualified employees who had been recruited on | The organization identified 39 positions that needed to be made permanent, and these were approved by the Board of Directors of both the organization and the managed company. Accordingly, the employees who were working on a contract basis in those positions at the time, were subjected to a performance | When making employees permanent, their educational qualifications and work experience should be thoroughly verified, and should follow the proper procedures. Additionally, |

a contract basis in 2008, 2012, and 2013 were not included in the list of those made permanent. Instead, officials who were recruited on a contract basis in later years were included. It was stated that a proper performance evaluation process had been followed and that those employees had been selected through interviews. However, during the 182nd Board of Directors meeting held on 21 September 2023, the Board granted approval for these appointments without conducting interviews.

evaluation. As a result, 35 of the identified positions were filled with those employees.

disciplinary action should be taken against any officers who have provided false information during this process.

4. Accountability and Good Governance

4.1 Annual Action Plan and Performance

| Audit Issue | Management Comment | Recommendation |
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| (a) The operational plan of the year under review had not included the roles of the human resource department, marketing department and planning department of the Company. | In the future, steps will be taken to incorporate the relevant responsibilities for the aforementioned sectors into the action plan. | The action plan should be prepared including contributions from all sectors of the organization. |
| (b) During the year under review, the Company had targeted a revenue of Rs.2,417,000,000 from sand sales and Rs.159,000,000 from excavation and geological projects. However, the actual revenue earned was only Rs.27,316,991 and Rs.62,797,518, representing just 1.1 percent and 39.5 percent of the target, respectively. Despite this shortfall, the Company had not identified strategies or developed a marketing plan to boost revenue growth. | Reaching the target became challenging due to several factors, including the economic crisis, the closure of the Ambathale sand sales centers based on a decision by the Board of Directors, rising fuel and construction material costs, and the issuance of permits to private sand sales centers around the company's locations. These issues made it difficult to achieve the expected sand sales operations. | Considering the practical circumstances, a strategic marketing plan should be developed to identify and implement methods for increasing revenue. |