

Geological Survey and Mines Bureau - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Geological Survey and Mines Bureau for the year ended 31 December 2021 comprising the Statement of Financial Position as at 31 December 2021 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year ended, and notes to the financial statements, including a summary of significant accounting policies, 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 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Bureau as at December 2021, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on 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 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 Public Sector Accounting Standards 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 Bureau'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 Bureau or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bureau's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bureau 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 Bureau.

1.4 Audit Scope (Responsibility of Auditor regarding 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 Bureau'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 Bureau'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 Bureau 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, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Bureau has complied with applicable written law, or other general or special directions issued by the governing body ;
- Whether the Bureau has performed according to its powers, functions and duties; and
- Whether the resources 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 Non-Compliance with Sri Lanka Accounting Standards

Audit observation	Comments on Management	Recommendation
Though fully depreciated fixed assets costing Rs.550,059,778 are still being used, those assets were not been disclosed in the Financial statements in accordance with Sri Lanka, Accounting Standards 7 and the estimated errors regarding the useful lifetime of these assets were not been revised and reconciled in accordance with Sri Lanka Public Sector Accounting Standard 3.	Actions could not be taken due to the last Covid pandemic situation and actions will be taken in the future to review the assets that are further utilized beyond the effective life of non-current assets and proceed as per Public Sector Accounting Standards No 3.	It should be acted in accordance with Accounting Standards.

1.5.2 Accounting Deficiencies

Audit observation	Comments on Management	Recommendation
(a) According to the balance confirmation's received from the banks related to the investments, the Fixed deposit investments of the Bureau was Rs.2,641,230,569 but according to the Financial Statements value of the investment was stated as Rs.2,596,992,830 and a difference of Rs.44,237,739 was observed, the reasons for the difference were not investigated and adjusted in the financial statements.	During the preparation of accounts in the year 2021, Only the fixed deposits belonging to the Bureau have been shown in the financial statements and the Critical Illness Funds belonging to the Bureau's employees and the Aid received from foreign for Tsunami seismic centers have been shown under accounting policies and notes.	The value of Investments should be disclosed accurately in the Accounts.
(b) The cost of Rs,8,193,693 for development activities from 2018	The land where the Gampaha regional office and	Capital and recurrent expenditure should

to 2020 for the Gampaha regional office and warehouse, which was built on 99 years leasehold land was written off against the accumulated profit as a previous year adjustment without capitalizing it as buildings. Therefore the accumulated profit and the value of the buildings in the year under review were understated in the financial statement from the above amount.

warehouse is located is not owned by the Bureau and it is a land acquired on lease on a 99 year lease basis. But no capitalization was made as the expenses were incurred to prepare the road and drainage system and to prepare the land for use.

be accurately identified and accounted.

- (c) In previous years the balance sum received to the Bureau from a foreign university for the maintenance of the Pallekale Tsunami Center and incurred expenses was shown in the financial statement under current liabilities, For that purpose the audit reports of the previous years had indicated that a correct accounting policy should be chosen and accounting should be done accordingly and the grant receipts should be disclosed in the financial statements. However, without proceeding accordingly the grant received in the year under review of Rs.1,824, 809 and investments income of Rs.359,498 for fixed deposits and expenses of Rs.2,591,292 incurred from grant during the year were recorded in a separate account but these income and expenses were not shown in the financial statements of the year under review.

From the year 2021 this fixed deposits are disclosed under accounting policies and notes to the financial statements, this foreign grant amount has been received not for the activities of the Bureau but for the activities of the Tsunami communication centers.

A correct accounting policy should be selected and the accounting should be done accordingly.

- (d) According to the financial statements of the subsidiary company of the Bureau the receivable balance and the payable balance were Rs.4,698,378 and Rs.1,513,857 respectively while according to the financial statements of the

Of the relevant transactions, transactions amounting to Rs.3,267,161 have been accounted for by the Bureau. Discussions were held regarding the unaccounted transactions of the bureau and GSMB Technical

Accounts receivable and payable balances should be accurately identified settled and recovered.

Bureau the receivables to the Services company and Bureau from the subsidiary further discussions are company and the payable balance scheduled to be held to the company from bureau regarding the account and it were Rs.27,360,000 and will be resolved in the Rs.3,267,161 respectively, further. Accordingly, a difference of Rs.22,661,622 and Rs.1,753,304 were observed respectively, in the group financial statements and the net value of the balances receivable and payable from the Bureau to the company and from the company to the Bureau were Rs.27,277,360 shown under current assets under inter company.

1.6. Non compliance with the laws, rules regulations and management decisions

Reference to rules regulations etc.	Noncompliance	Comments of Management	Recommendation
(a) Financial Regulations Democratic Socialists Republic of Srilanka Financial Regulations 756.	Board of Survey reports on non-current assets were not submitted for audit even on 30 June 2022 and in the year under review, only the inventories of Yakkala ware house and Laboratories of head office were surveyed while no inventories were surveyed in other divisions of the Bureau.	In relation to the year 2021 inventories surveyed have been carried out in relation to the Yakkala Werellawatta warehouse and laboratories, the related reports are presented here with and as the surveys of the remaining inventories are being carried out review of the current situation in the country and we will work to provide those reports in the future.	It should be acted in accordance with the Financial Regulations
(b) Mines and minerals Act no 33 of 1992			
(i) Section 26			

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| (1) and 44
(b) | Although the royalty collected by the Bureau on behalf of the government should be sent to the treasury, the value of the royalty without remitting to the treasury during the period from 2016 to 2021 was Rs.3,147 million | The Bureau has remitted an amount of Rs.8,410,000,000 to the treasury. Accordingly, from the total government revenue received by the Bureau after payment to the treasury, amounted to Rs.3,147,241,802 remain. | Actions should be done interms of the provisions of the Act. |
| (ii) Section 52
(2) and
mines and
order
21(a)
amended
by the
gazette No
958 dated
10 January
1997. | Though the land should be rehabilitate within 2 months to 9 years after the excavations, but actions had not been taken to complete the said work from 1943 mining license holders. Although the bank gurantees value of Rs.439,004,539 obtained from the above licensees was been claimed the said money was not used for land rehabilitation activities and was shown in the financial statements as a payable balance. | The Bureau is working to rehabilitate, unrehabilitated mining sites and has taken legal actions for nearly 100 unrehabilitated mining sites. due to the fact that the value of the bank guarantees obtained for the rehabilitation bonds is not sufficient for the rehabilitation the Director General of the Bureau has issued guidelines regarding raising the value of the rehabilitation bonds and preparing the rehabilitation plan through internal circulars. | The money collected for land rehabilitation should be spent for that purpose and the land should be rehabilitated. |
| (iii) Minins
order of
33 (4)
amended
by the
gazette
no 958
dated 10
January
1997. | No steps had been taken to make timely revisions to the functions by making the Secretary for a determined market value of mining products. allowable deductions and royalty payment arrangement. | An increase or decrease of the royalty percentage can also be changed in an investment agreement signed by the Secretary of the Ministry.It is inform that these activities are already being carried out by the Bureau when signing investment agreements. | Actions should be taken to make timely revisions for the royalty payment arrangements. |

(c) Mines and minerals Act (amended) No. 66 of 2009.

(i) Section 2 (e) Due to non introduction of the steps to be used to add value to minerals by the Bureau, the graphite, mineral sand and quartz which were mined were being exported as raw materials without being adding a value. According to the existing mineral policy it was not permitted by the Bureau to export minerals without being adding value. Actions should be done bu the Burue to introduce the mineral value addition program.

(ii) Sections 37 (a) (b) (d) If the Bureaus satisfied that any condition related to the mining license has been violated, any legal order given by the Bureau has not been implemented, or it has been suspended for more than 3 months without the permission of the Bureau, the Bureau is empowered to cancel the mining licenses, Nevertheless, the mining licenses granted VVM Lanka Graphite (Pvt) Company for the period 2017/2018 and Alchemy Heavy Metals (Pvt) Company for the period 2014/2024 for mineral sand mining had not been done until 30 June 2022 and no actions had been taken to cancel the licenses. As indicated from the audit in accordance with the Act and regulations, the Bureau has issued mining licenses valid for 10 years for the two companies VVM Lanka (pvt) Ltd and Alchemy Heavy Metals Private Ltd and the two mining licenses issued by the Bureau to Alchemy Heavy Metals (pvt) ltd in the year 2017 and canceled by the Bureau in accordance with the regulations and after an appeal made by the licensess to the Secretary of the Ministry in accordance with the Act and the Bureau has taken steps to validate the licenses again. The licenses of the entities that have not been engaged in mining activities should be cancelled and reassigned to other mining entities.

(d) Foreign Exchanges Orders mentioned in Special Although the foreign stake from the total share ownership of a company that doing mining within Sri Lanka should be upto The Bureau has already inquired whether the approval of the Board of Investment has been obtained. Accordingly, It should be acted in accordance with the provisions of the Gazzette.

Gazette No.2045/56 dated on 17 November 2017 and No.1232/14 dated on 19 April 2002.

40 percent, if the ownership is exceeded that limit, the special approval of the board of investment Sri Lanka should be obtained. But, the 86.55 percent of the total share ownership of the Bogala Graphite Company that doing graphite mining within Sri Lanka was owned to two foreign companies and, this company had not been obtained the approval from the board of investment Sri Lanka or entered in to an investment agreement with that board. However, the Bureau had issued 2 graphite mining license to the company without considering that.

ased on the information received from them the Bureau will proceed to obtain the permission of the Board of Investment.

- (e) Cabinet Decision No අමුණ/17/530/7 04/009 Dated 29 March 2017.
- Taking into account the importance of evaluating the environment impacts of the removal of minerals in the rivers and river basins managed by the Mahaweli Authority for government development activities and minimizing the adverse effects on the environment due to the unrestricted removal of those minerals and it was stated that the Bureau should be granted licenses only to the GSMB Technical Services (pvt) Ltd. Apart from that company, the Bureau had given licenses to 82 private licenses for sand mining in Maduru Oya belonging to Mahaweli Authority the year under review,.
- 3) Based on orders received from the Supreme Court Case No 81/2004 for the removal of deposited sand deposit in the Manampitiya Wildlife Zone, Mahaweli river, Polonnaruwa district since 2008, the Bureau has issued permits for sand mining to Technical Services (pvt) Ltd, apart from Manampitiya, sand mining permits were issued to other people in the Mahaweli river and Maduru oya in Polonnaruwa district, Accordingly it is not a legal problem to issue permits for sand mining to other persons upon the approval of the Sri
- Actions should be done in accordance with the Cabinet Decision.

2. Financial Review

2.1 Financial Result

The operating result of the group year under review had been a profit of Rs.1,564,466,354 as compared with corresponding profit of Rs.730,394,526 for the proceeding year. It was observed a growth of Rs.834,071,758 in the financial result. The increment of income in the Bureau and the Subsidy is the main reason for the growth.

3 Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of Management	Recommendation
(a) According to an agreement entered in year 2020 between the Treasury Secretary and a German company, 50.01 percent of the shares owned by the government in Bogala Graphite Company were transferred to the said German company and according to this agreement, the acquiring company is agreed to submit proposals related to the development and sale of graphite based industries in Sri Lanka to the Public Enterprises Reform Commission, However, the company had not developed a graphite based industry in Sri Lanka and the graphite mined by the company continued to be exported as raw materials without adding value.	Under the mining licenses issued to Bogala Graphite company the minerals brought to the surface are reprocessed and processed for export after the mining is done from a depth of more than 1000 feet from the surface of the ground with a large capital expenditure Accordingly, all graphite mining licenses, including Bogala graphite company investing heavily to add value to a mineral. Accordingly the graphite mineral is currently being exported in accordance with a value addition identified by the bureau but the bureau is currently carrying out the necessary preliminary work to introduce new value addition limits and to allow export according to those limits.	The Bureau should make a proper regulation in this regard immediately.
(b) In the Kahatagaha Mine where The Kahatagaha Graphite Company is mining, the Bureau had been constantly informing about the deficiencies in the field	The Mining license issued for the graphite mine is extended annually and the Bureau has imposed conditions to correct the existing deficiencies in the mine, and it is mentioned	It should be monitored whether the deficiencies identified during the field inspections have been corrected.

inspection conducted by the Bureau annually and on special occasions through the inspection reports and the mining licenses had been extended annually and the relevant company had not taken steps to correct the deficiencies from the inspection reports confirmed.

- (c) During the year under review, after a field visit conducted by a technical team of mining engineers and geologists from the bureau and a committee (environmental impact assessment and regional) recommended that the mining licenses for Sakura graphite company be extended by only one year, the bureau had taken measures to extended it from 2021 to 2031, for 10 years and no special powers were assigned for this purpose by the bureau establishment Act or any other special gazette notification.
- According to the rules assigned under the Act and regulations, the validity period of an industrial mining a category license can be determined based on the economic viability report, the applicant has complete the requirements upon the request made in accordance with the act and regulations and the beaureu has issued the license for a period of 10 years.
- Approval should not be given for the functions for which no special delegation of powers has been made by the Bureau Establishment Act or any other Special Gazette Notification.
- (d) The Karasnagala Graphite Mine is excavated by Zircon Development Private Company and its whole rights are owned by foreign parties, so the said company had entered into an agreement with the Board of Investment of Sri Lanka in 2012 for the exploration, mining and sale of graphite in Sri Lanka to local and foreign markets, Due to the fact that the relevant works had not been completed according to the agreement and the validity period of the Agreement was extended to the year 2018 and without further examine the
- There are situations where it is not possible under the graphite mining license to make the expected mineral production. Accordingly this company has also exported only one ton of graphite mined at this time. How ever due to the legal issue among the investors, the work on the mining license is being carried out at a minimum level.
- The validity of the contracts should be checked and the Bureau should make proper Regulations.

validity of the agreement, mining permits were issued for this mine on two occasions from 26 August 2019 to 28 February 2022. During the period of year 2019-2021 graphite mining was not done sufficiently in this graphite mine and in the year 2020, only one ton of graphite was exported as raw material to a foreign country.

- (e) According to the current National Mineral Policy published by the Ministry of Industrial Development in 1991, value addition should be done for existing mineral based industries, but the 4 companies Bogala Graphitic, Kahatagaha Graphitic, Karasnagala Graphite, Sakura graphite added value during the period from 2019 to 2021. Without doing so, 7,632,000 kg of graphite was exported at a price of Rs 282 to Rs 415 per kg at a value of Rs 2,708 million.
- Minerals brought to the surface are reprocessed and processed for export, thus initial value addition has been done by license in mineral exports and the Bureau is currently working to introduce value addition limits for graphite.
- Instead of exporting graphite at very low cost, steps should be taken to export finished or semi-finished products using technology.
- (f) An investment agreement was entered into in 2012 between the Board of Investment and VVM Lanka Graphite (Pvt) Company for the mining and value addition of mineral sand in Mannar district and the relevant agreement was canceled by the Board Of Investment of Sri Lanka On 25 February 2020, Due to non implementation of the project. With out checking these agreement, the Bureau had granted a license for mineral sand mining in Trincomalee Muthur area from 2017 to 2018 and for 10 years from 12
- Under the Act and regulations, rules have been made for the legal transfer of an industrial mining category 'A' and 'B' license. Accordingly the submitted applications and technical matters have been transferred subject to the approval of the Secretary of the Ministry based on the agreement.
- Licenses should not be granted without checking agreement and non mining licenses should be revoked.

July 2018 to 11 July 2028. but, till the end of the year under review, no drilling was done and the license was being transferred to a newly registered company in the year under review.

- (g) Department of Coastal Conservation and Coastal Resource Management were not granted licenses to V.V.M. Lanka Mineral Company and Alchemy Heavy Metal Company to mine mineral sand on the respective beaches after 23 October 2018 and 20 December 2017 respectively. But, the Bureau had granted licenses to these companies for 10 years.
- The Department of Coastal and Coastal Resources Management issues the approval of the Department annually based on the initial environmental inspection study, and the license must carry out the tasks assigned by the license based on the relevant recommendations.
- Attention should be paid to obtaining proper approval while granting licenses for mineral sand mining in coastal areas.
- (h) According to the notification made by the Cabinet on 22 May 2017, A National Policy on mineral resources was not prepared and approved until 30 June 2022.
- The Bureau is currently working according to the National Mineral Policy issued by then ministry of industry in 1999, and the policy has been revised to suit the present and has now been forwarded to the Ministry of Environment, the bureau is discussing with the Ministry of Environment to launch the new policy within the next 6 months.
- A National Policy on Mineral Resources should be formulated and approved as soon as possible.
- (i) No scientific method has been adopted to determine the quantity of aggregate mining, and the quantity of excavated cubes was considered to be twice the amount of explosives used for aggregate mining and the royalty was collecting without any basis.
- The problem seen in the calculation of the quantity of minerals removed based on the quantity of explosives used is that it is not possible to clearly identify whether the entries amount of explosives obtained was used for that excavation at another location to avoid that problem, random testing has been done to compare the quantity of aggregate excavated from time to time and the quantity of explosive used.
- A scientific methodology should be developed urgently.

- (j) Sum of Rs.27,419,690 of royalty per Rs.26,876,200 and Rs.543,490 that should be received for soil cube 1343810 and sand cube 3397 respectively that used for Yan Oya Reservoir Project, During the period of year 2016-2018 had not been recovered from the company even by the end of the year under review. although the bureau has asked the Chinese company that implemented the Yan Oya project and the irrigation department which owns the project, to pay the royalty, they have not yet made the payment however, according to a discussion held by the Bureau with the irrigation department, it has been informed that further discussions should be held between the Bureau and the irrigation department, so it is proposed to hold a discussion between the two parties in the future. These dues should be recovered immediately.
- (k) Eighty two private licensees were issued mining licenses with a monthly capacity of 100 cubes for sand mining in Maduru Oya belonging to the Mahaweli Authority and they were allowed to mine only 3 days a week. But the licensees were excavating 7 days a week exceeding the monthly capacity of 100 cubes in violation of the mining conditions issued by the Central Environment Authority and the Bureau had not made proper regulation in this regard. In Polonnaruwa district, 82 private license holders have been issued mining licenses for sand mining in Mahaweli river with the condition that can mine 100 cubes of sand per month and that the mining activities should be done only on Mondays, Wednesdays and Fridays of the week. Several raids have been conducted by the raiding division of the Bureau according to the complaints received by the bureau that they are drilling in violation of those conditions. in addition, the Bureau has informed the Sri Lanka Police Department is also empowered the enforce the law to prevent unauthorize activities under the act and egulations. A part from this the Bureau has instructed the special task forces to conduct raids related to mining permits. A Proper Regulation should be done by the Bureau.
- (l) In the mining license IML/A/HO/13015 issued by the Bureau for Kantale sand In order to prevent damage to the banks of Kantale-Suriyapura Mahaweli river ,the Measures should be taken to correct the deficiencies in the

mining project, the approved area for mining was stated as 01 hectare, but the excavated sand deposit 'A' was spread over an area of 06-07 hectares. Also, the mining license does not specify the maximum capacity that can be mined per month whether machinery can be used for mining and what types of machinery can be used, the level that can be mined in the sand deposit and the correct GPS coordinates of the area to be mined. A report issued by the Bureau's own excavation engineer stated that a full inspection by the Bureau or by a third party would be appropriate. However, in the year under review, the Bureau had not corrected the above defects mentioned in the supervision of the mining and the mining license.

Bureau has decided to build a dam to remove the sand deposits that are damaging the banks of the river, subject to the recommendations of the Sri Lanka Mahaweli Authority, the Irrigation department and the Wild life Conservation department, GSMB Technical Services (Pvt) Ltd has been issued industrial mining license No. IML/A/HO/13015. Since this was issued based on the requirement of the Sri Lanka Mahaweli Authority and the Irrigation department to remove the sand deposits that are damaging the river bank and build a dam on a damaged river bank, the monitoring work should be done by those institutions.

monitoring and
licensing
excavations