

## Geological Survey and Mines Bureau 2013

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The audit of financial statements of the Geological Survey and Mines Bureau for the year ended 31 December 2013, comprising the statement of the financial position as at 31 December 2013 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 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. Sub-Sections (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 qualified 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 2013 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 Non-compliance with the Sri Lanka Public Sector Accounting Standards

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Non-compliance with the following Sri Lanka Public Sector Accounting Standards were observed in audit.

Reference to Sri Lanka Public Sector Accounting Standards (SLPSAS)	Non-compliance
(a) Sri Lanka Public Sector Accounting Standard 02	<p>(i) The interest income received in the year had been understated by a sum of Rs.5,833,910 in the cash flow statement.</p> <p>(ii) The income tax paid in the year under review had been overstated by a sum of Rs.2, 677, 705 in the cash flow statement.</p> <p>(iii) Even though the annual provision for depreciation according to the Ledger Account amounted to Rs.101, 589,644, that had been shown as Rs.102, 093,811 in the cash flow statement.</p>
(b) Sri Lanka Public Sector Accounting Standard 03	The over-provision for electrify expenses of the preceding year amounting to Rs.782,943 had been adjusted to the accumulated profit instead of being adjusted to the profit of the year under review.
(c) Sri Lanka Public Sector Accounting Standard 07	The fair value of fixed assets costing Rs.176, 791,803 purchased in the preceding years and with zero book valued had not been shown in the books.

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| (d) Sri Lanka Public Sector Accounting Standard 10 | The accrued interest on the investments in fixed deposits and Treasury Bills amounting to Rs.589, 057,948 had not been computed on the effective yield and brought to account. The accrued interest had been shown under the cash and cash equivalents instead of being added to the respective assets. |
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## 2:2:2 Accounting Policies

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The following observations are made.

- (a) An appropriate accounting policy for the separate identification and accounting for the Value Added Tax and the Stamp Duty included in advance balances in accounting for the balances of license fee advances older than 05 years had not been introduced.
- (b) Even though the Bureau had been paying incentive allowances annually, those had been regularly adjusted to the prior year profit without making provisions in the relevant year. A sum of Rs.61, 610,836 had been paid in the year 2014 as the incentive allowances in respect of the year under review.
- (c) Even though the Bureau has 66 per cent ownership of an Associate Company through the investment made by the Bureau, action had not been taken to prepare and present consolidated financial statements.
- (d) Even though expenditure amounting to Rs.6, 542,303 of fictitious assets nature had been incurred, a policy for the accounting of such expenditure had not been introduced. That had been brought to account as investments.

## 2.2.3 Accounting Deficiencies

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The following observations are made.

- (a) A fixed deposit of Rs.22, 000,000 made on 7 January 2014 had been recorded in the Fixed Deposits Account for the year under review. As such the balance of that account had been overstated by that amount while the balance of the Bank Account had been understated by the amount.

- (b) The annual rent of Rs.1,080,000 of the building rented out to a private institution had been set off against the expenditure on rent instead of being brought to account as income.
- (c) As provision for the accrued expenses amounting to Rs.5, 727,689 in respect of the year under review had not been made in the financial statements, the profit for the year under review had been overstated by that amount.
- (d) The operating income and the other income had not been separately shown in the preparation of the statement of financial performance, the interest income amounting to Rs.84, 300,269 and dividends income amounting to Rs.2, 160,000 had been taken into consideration in the computation of the operating profit.

#### 2.2.4 Accounts Payable

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Even though the balances relating to Bank Guarantees, Initial Environmental Assessment fees and retention money amounts to Rs.3, 998,000. Rs.4, 971,332 and Rs.595, 648 respectively had been brought forward over a period of 03 years, action thereon had not been taken even during the year under review.

#### 2.2.5 Lack of Evidence for Audit

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The evidence indicated against the following items in the financial statements had not been furnished to audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
Head Office Building Partitioning and Air Conditioning	8,623,703	Contract Agreement
Fixed Assets	518,516,003	Board of Survey Reports

## 2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
(i) Chapter VII Section 5.3.3	If the last salary drawn by an officer at the time of promotion is less than the initial salary of the new salary scale by one or more salary increments, the officer should be placed on the initial steps of the new salary scale. As such a sum of Rs.210,570 had been overpaid in the year under review as 05 officers had been placed on unauthorized salary steps.
(ii) Chapter II Section 6	Promotions should be made to an approved post for an existing vacancy in accordance with the Scheme of Recruitment. Nevertheless, contrary to the provisions, a promotion to a post of Registrar (III) (Mineral Rights) had been made without an approval and vacant post.
(iii) Chapter XXX Section 1.4.1	The Geologists of the Bureau had earned a sum of Rs.2, 528,400 by serving in a private institution. Even though 10 per cent that of the earnings in addition to one's duty should be paid to the Consolidated Fund, it had not been so done.
(b) Financial Regulation 454(1) of the Republic of Sri Lanka	Separate Inventory Registers had not been maintained for Sub-offices and Divisions.

- (c) Government  
Procurement Guidelines  
NPA Circular No.8 of 25  
January 2006  
Sections 5 2.1 and 5.3.3. The information that should be furnished to the bidders in calling for bids had not been furnished for the contract of Rs.1,829,563 awarded for in Partitioning of rooms and construction of the ceiling of the new laboratory building.
- (d) Supplement 20 to the  
Procurement Manual of  
01 January 2011  
Paragraph ii The Contract for the Partitioning and the Air-conditioning of the third floor for Rs.5,228,288 had been awarded without calling quotations on the approval of the Board of Directors without an approval of the Ministry Procurement Committee while the contract of the fourth floor amounting to Rs.3,395,415 had been awarded without the approval of the Departmental Procurement Committee.
- (e) Circular Letter  
No.DMS/C/2/E-8 of 08  
December 2006  
paragraph vi Even though the Scheme of Recruitment should be revised and obtain the approval required for the continuous receipt of the benefit of the new salary scales the management had not taken action in this connection.
- (f) Public Enterprises  
Circular No.39 of 09  
October 2006 The Chairman, the Director General and the General Manager of the Bureau respectively had been paid sums of Rs.43,740, Rs.38,880 and Rs.38,880 totalling Rs.121,500 exceeding the approved fuel allowances.

2.4 Transactions not supported by Adequate Authority

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Even though a Section of the Head Office Building had been rented out at a monthly rental of Rs.90, 000 to a private institution a rental agreement had not been signed. A separate meter had not been installed for the electricity consumed by that institution and the charges had been determined on the square feet of the floor.

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 2013 amounted to a pre-tax net profit of Rs.623,986,493, as compared with the corresponding net profit of Rs.691,122,409 for the preceding year. The financial result as compared with the preceding year indicated a deterioration of Rs.67, 135,916. The decrease of royalty income and the laboratory income by Rs.57, 347,714 and Rs.695, 759 respectively and the increase of expenditure by Rs.58, 382,494 had been the factors that affected the deterioration of the financial results.

- (a) Instead of adjusting the income and expenditure of each year to the income statement of the year of receipt, the Bureau had adjusted those to the retained earnings balance in the ensuing year as an accounting policy. As such the actual financial results of the respective years had not been reflected in the financial statements.
- (b) Had the income and expenditure adjusted to the retained earning balance during the few preceding years, the effect on the financial results would have been as follows.



Particulars	2012	2011	2010	2009	2008
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	Rs.	Rs.	Rs.	Rs.	Rs.
Profit according to the Financial Statements	665,548,815	618,549,416	469,504,023	385,563,862	319,971,454
Adjustments after Retained Earnings -					
Income	204,642,243	12,160,858	9,101,684	3,093,358	60,449,030
Expenditure	(64,218,642)	(163,970,847)	(43,607,518)	(32,473,249)	(11,387,492)
Profit after Adjustment	805,972,416	466,739,429	434,998,189	356,183,972	369,032,992
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Effect of the Adjustments on the Profit (Percentage)	21	25	7	8	15

### 3:2 Profitability

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According to the information in the financial statements presented, the particulars relating to the financial results of the Bureau for the year under review and the four preceding years had been as follows.

	2013	2012	2011	2010	2009
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	Rs.	Rs.	Rs.	Rs.	Rs.
Income	1,096,173,822	1,104,927,244	961,801,535	767,587,528	627,169,486
Expenditure	(472,187,329)	(413,804,835)	(343,252,119)	(298,083,505)	(241,605,624)
Pre-tax Profit	623,986,493	691,122,409	618,549,416	469,504,023	385,563,862
	=====	=====	=====	=====	=====

The profit of Rs.691,122,409 in the year 2012 had decreased to Rs.623,986,493 in the year under review by a sum of Rs.67,135,916 or about 9.7 per cent.

### 3:3 Analytical Financial Reviews

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The following observations are made.

- (a) The total income of the Bureau for the year under review as compared with the preceding year had decreased by a sum of Rs.8, 753,423 or 0.8 per cent.
- (b) The total expenditure of the Bureau for the year under review as compared with the preceding year had increased by a sum of Rs.58, 382,494 or 14 per cent.
- (c) The net cash flow generated from the operating activities for the year under review amounted to Rs.456, 161,756 and that in the preceding year had been Rs.735, 853,666.

### 3:4 Working Capital Management

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Liquidity Ratios	Standard Ratio	2013	2012
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Current Ratio	2:1	4.3:1	2.48:1
Liquid Assets Ratio	1:1	4.2:1	2.44:1

### 3:5 Unusual Increase in Expenditure

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The following items of expenditure in the year under review as compared with the preceding had indicated and unusual increases.

Particulars	2013	2012	Increase	Percentage of Increase	Observations
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	Rs.	Rs.	Rs.		
Geology	34,866,813	28,973,231	5,893,582	20.3	Due to the increase of the sectors mapped and projects carried out expenditure on stationery and wages had increased.
Mapping	10,556,894	6,758,055	3,798,839	56.1	- do -
Projects	11,713,729	7,824,655	3,889,074	49.7	- do -
Regional Offices	109,532,129	86,456,437	23,075,692	26.7	Due to the establishment of new sub offices, expenditure on wages and stationery had increased.
Administration	280,235,005	254,165,904	26,069,101	10.3	Expenditure on depreciation had increased.

#### 4. Operating Review

##### 4:1 Performance

The following observations are made.

Expected Target	Actual Performance
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(a) Preparation and Printing of two 1:50,000 scale Geological maps (Quaternary)	Field inspections in the areas of Yala, Puttalam, Thissamaharama and Galle only had been done.
(b) Preparation and printing of two 1:50,000 scale maps showing the Geochemistry in earth	Field inspections of Morawaka and Horowpathana only had been completed and 60 per cent progress of field inspections of Kawdulla and Rakwana had been achieved. Progress of laboratory work had been at a

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| (c) Survey of Atomic Elements  | low level of 20 per cent.<br>Even though the field inspections of Atomic Elements Survey of the coastal area of North and East had been done and samples collected, laboratory tests not had been done. A sum of Rs.2.28 million had been spent in this connection. |
| (d) Provincial Mineral Surveys of Eastern Province                               | Field Inspections of Trincomalee only had been done.  |
| (e) Special Mineral Reports-preparation of Reports on Mica, Marble and Limestone | Reports had not been prepared.  |

#### 4:2 Management Inefficiencies

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##### (a) Investigation of Public Complaints

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Even though in 3,241 public complaints received during the year under review had been referred to the Divisional Heads and in Regional Offices, follow up action had not been taken. Most of those complaints had been in connection with illegal activities, environmental damage and obstructions to the public.

##### (b) Recovery of Royalty Arrears and Royalty Advances

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The following observations are made.

- (i) According to the Excavation of Mines (Licencing) Orders No. 1 of 1993, the Bureau should recover royalty on the market value of minings for minerals, royalty on about 1,500 mining licences for rocks, gravel sand and clay had not been recovered.

- (ii) An advances are obtained on the receipt of applications the Bureau is faced with an unnecessary financial responsibility with regard to the royalty advances of applications for which licences had not been issued.
- (iii) In accounting for royalty advances as income confirmation of the liability have not been established by studying the files. As such advances amounting to Rs.184, 301 brought to account as income had been refunded.
- (c) Construction of a temporary building for the Laboratory  
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The following observations are made.

- (i) Even though a period exceeding one year had elapsed after the commencement of construction of the building, it had not been possible to carry out laboratory tests. As such, laboratory equipment valued over Rs.58 million and 12 officers attached to the laboratory had been underutilised.
- (ii) The laboratory had not been constructed within the agreed period of 77 days and 168 additional days had been taken for the work. The contract had been awarded to bidder who did not have the basic qualification.
- (iii) Even though air conditioning of the building was included in the original estimate prepared by the Department of Buildings and the scope of work, the conditions of the contract included a different methodology (turbine type exhaust system and natural lighting) as customer requirements, Nevertheless, the contractor had installed electric fans instead of air-conditioning which was contrary to the scope.
- (iv) Subsequently ceilings had been installed at a cost of Rs.208,000 obstructing the achievement of expected results from the turbine exhaust equipment installed on the roof.
- (d) A technical report had not been obtained for determining the capacity of the air-conditioner for installation in connection with partitioning and air-conditioning of third and fourth floors of the Head Office Building.

- (e) The income of the Regional Offices at Kandy, Kurunegala, Gampaha, Badulla, Ampara and Batticaloa is collected in a private Bank Current Account. As there were delays in the transfer of the money so collected to the Main Bank Account the interest receivable from investing the money had been deprived of.
- (f) It was observed during field inspections that 03 Bank Guarantees valued at Rs.400,000 had been released despite mining had been done by breaching the conditions of licences and the failure to rehabilitate the lands as appropriate.
- (g) Irregular use of Mining Equipment and Other Assets

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The following observations are made.

- (h) The mining equipment of the Geological Survey and Mines Bureau are obtained on hire basis for the surveys carried out by the Geological Survey and Mines Bureau Technical Services Company and records showing the issue of equipment and that those were taken over in good condition had not been maintained.
  - (ii) A mobile phone valued at Rs.89,910 and 03 laptop computers valued at Rs.305,970 had been purchased in the year under review for the new Chairman while laptop computer valued at Rs.220,000 and the mobile phone valued at Rs.24,660 issued to the former Chairman remained in the stores.

#### 4:3 Transactions of Contentious Nature

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The following observations are made.

- (a) According to Order No.13 (1) of the Excavation of Mines (licencing) Orders No.1 of 1993 the applications for industrial excavation licences should submit an Economic Viability Report. Even though that Geological Survey and Mines Technical Services Company had submitted reports by charging a fee, such reports did not include the mines reconstruction plan, marketing and sales plan, environmental impact assessment, effects of production, detailed mines reconstruction plan and the reconstruction guarantee that should be included in an Economic Viability Report.

- (b) The Bureau could not take legal action against the licence holders who do not rehabilitate the land due to the unavailability of a reconstruction plan and a guarantee as above.
- (c) The Geologists of the Geological Survey and Mines Bureau carry out surveys on industrial excavation licences during their office hours, while on leave and on public holidays and had obtained payment for such services from the Geological Survey and Mines Bureau and the Technical Services Institution.

#### 4:4 Staff Administration

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The following observations are made.

- (a) The approved and the actual staff as at 31 December 2013 had been 381 and 292 respectively. As such there were 89 vacancies, of which 82 belonged to the operating staff. Instead of taking action to fill those vacancies, payment had been made to the employees procured on contract basis from a private company.
- (b) Even though promotions to posts of Mining Engineers Grades III and IV require experience of 12 years and 08 years respectively, 04 officers without such experience had been promoted.

#### 4:5 Idle and Underutilized Assets

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The following observations are made.

- (a) The Bureau had spent a sum of Rs.130,476,703 in the year 2007 for the purchase of a land belonging to the Urban Development Authority in the Orugodawatta area for the construction of a building for the Head Office and for the ceremony for laying the foundation stone but that work had been abandoned.
- (b) A sum of Rs.55,241,300 had been spent in the year 2010 for the purchase of a land in the Battaramulla area from the Urban Development Authority on lease of 30 years. The total expenditure incurred up the end of the year under review including the expenditure incurred on miscellaneous activities amounted to Rs.68,861,568. But no construction work had been done.

- (c) Even though a Wilfley table valued at Rs.2,363,700 had been purchased for the geo-litho Laboratory on 15 March 2013 for the separation of mineral sands, that had not been utilized up to March 2014.

5. Accountability and Good Governance

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5:1 Corporate Plan

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The following observations are made.

- (a) The Corporate Plan did not include a review of the preceding three years operating results and the officers responsible for goals in terms of Section 5.1.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003.
- (b) The following functions of the Bureau as appearing in Section 6 of the Mines and Minerals (Amendment) Act, No.66 of 2009 had not been included in the Corporate Plan and Action Plan.
- Identification and assessment of mineral resources of Sri Lanka and dissemination of such information.
  - Assessment of commercial capacity for mining for mineral processing and export and disseminate through appropriate media.
  - Improving the mineral based products, value addition and the steps to be taken for notice of the chairman for the export of mineral based products on commercial basis.
- (c) The following programmes and activities in the Corporate Plan had not been implemented by the Bureau.
- Establishment and improvement of the Geotechnical Laboratory.
  - Improvement of detailed maps and demarcation of boundaries.
  - Improvement of the laboratory.
  - Dissemination of the Laboratory services for the Projects undertaken by the Bureau.



- Mining Project Reports and their dissemination
- Creation of Earth Tremor Management Network for observation of earth movements in Sri Lanka. Even though a sum of Rs.10 million had been allocated for the purpose, that had not been done in the year under review.
- Geophysical Survey: Even though a sum of Rs.1.05 million had been allocated for the purpose, that had not been done during the year under review.
- Museum Development : Even though a sum of Rs.2 million had been allocated for the purpose, that had not been done during the year under review.

#### 5:2 Budgetary Control

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Significant variances were observed between the budgeted information and the actual information thus the budget had not been made use of as an effective instrument of management control.

#### 5:3 Tabling of Annual Reports

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The Annual Report for the year 2012 had not been tabled in Parliament even by May 2014.

#### 5:4 Directives of the Committee on Public Enterprises

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Even though analysis of the royalty advances should have been carried out in accordance with the directive made by the Committee on Public Enterprises on 16 October 2012, the private audit firm selected for the purpose had recommended that all royalty advances from the year 2006 to the 2012 should be credited to the State Revenue without preparing an age analysis of the royalty advances balance. That advance balance included money belonging to the applicants to whom licences had not been issued as well as the money belonging to the holders of valid licences who

had been paying royalty as specified. A sum of Rs.989,000 had been paid for this purpose to the audit firm.

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 through the detailed report issued in terms of Section 13(7)(a) of the Finance Act, No.38 of 1971. Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Staff Management
- (c) Recovery of Royalty
- (d) Annual Boards of Survey
- (e) Inventory Control
- (f) Creditors and Debtors Control
- (g) Fixed Assets
- (h) Execution of Contracts
- (i) Payments made from the Shroff's Counters