

## **Geological Survey and Mines Bureau - 2014**

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The audit of financial statements of the Geological Survey and Mines Bureau for the year ended 31 December 2014, comprising the statement of the financial position as at 31 December 2014 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 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**

**2:1 Qualified Opinion**

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 2014 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**

**2.2.1 Consolidated Financial Statements.**

Even though the Bureau has 66 per cent ownership of a subsidiary company affiliated to the Bureau with a net assets of Rs.108,452,724 , a consolidated financial statements had not been furnished consolidating the financial statements of that company with the financial statements of the Bureau.

**2:2:2 Sri Lanka Public Sector Accounting Standards**

**(a) Sri Lanka Public Sector Accounting Standards 01**

Although a sum of Rs.6,665,050 received from an American University for the construction and maintenance of Earth Tremor Measurement Towers from the year 2000 to the year under review cannot be settled within the ensuing year, it had been shown as current liabilities in the financial statements.

**(b) Sri Lanka Public Sector Accounting Standards 02**

Even though the actual amount spent for the acquisition of property, plants and equipment and work- in- progress during the year under review amounted to Rs.29,616,552, it had been shown as Rs.43,673,921 in the cash flow statement. Further, a sum of Rs.17,900,845 had been transferred to the Building Account from the Work-In –Progress Account during the year under review, and out of that amount a sum of Rs.3,843,476 spent for the work-in-progress for the year under review had been deducted and Rs.14,057,369 had been erroneously shown as a cash receipt from the work- in- progress in the cash flow statement.

**(c) Sri Lanka Public Sector Accounting Standards 03**

The comparative details on the corrections carried out relating to preceding periods as a result of accounting policies, changes in accounting estimates and errors should be shown as a restatements made to the financial statements and such corrections should be disclosed in the financial statements through the detailed notes. However, the Bureau had carried out corrections amounting to Rs.108,286,341 relating to the previous year and restated their comparative details pertaining to the preceding year

in the financial, but it had not been disclosed in the financial statements through a detailed note.

**(d) Sri Lanka Public Sector Accounting Standards 07**

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Although assets costing Rs.477,156,170 and belong to 5 categories had been revaluated at Rs.535,099,270 during the year under review, the date of revaluation, whether the revaluation had been done by an independent qualified assessor, the specific assumptions made in the revaluation and the manner in which the fair value of the assets was determined had not been revealed in the financial statements.

**(e) Sri Lanka Public Sector Accounting Standards 09**

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Although it had been stated that stocks had been shown in the financial statements at the cost or net realized value, whichever is less, the basis for stock valuation had not been disclosed in the financial statements.

**2.2.3 Accounting Policies**

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In terms of the Generally Accepted Accounting Principles, royalty should be recognized on accrual basis according to the terms of the agreement pertaining thereto, whereas the Bureau has used the cash basis for this purpose. At the test check conducted in this connection it was observed that the royalty receivable for 1,400 issued licences had not been calculated and shown in the financial statements.

**2.2.4 Accounting Deficiencies**

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The following observations are made.

- (a) The expenditure totalled Rs.71,322,061 incurred during the year under review had been shown as a previous year adjustment in the financial statements instead of being accounted for as expenditure of the year under review.
- (b) A sum of Rs.55,000,000 granted to the Ministry for the construction of proposed Ministry building had been shown as a financial remittance made to the General Treasury in the financial statements.
- (c) Although the Employee Distress Fund established with a sum of Rs.1,300,910 obtained from the employees' incentives had been deposited in fixed deposits in favour of the Bureau, the Fund and the investment had been omitted from the accounts.
- (d) The value of the equipment awarded from foreign countries for Earth Tremor Measurement Towers had not been assessed and shown in the financial statements. The other expenses including the custom duties amounting to Rs.6,542,303 incurred on these equipment had been shown as investments in the financial statements.

### **2.2.5 Lack of Evidence for Audit**

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Evidence indicated against the following items had not been furnished to audit

<b>Item</b>	<b>Value Rs.</b>	<b>Evidence not made available</b>
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(a) Payment of incentives	60,823,367	Details relating to the computation of the profits of the projects used as the basis for the payment of incentives and the income and expenditure schedules.
(b) Staff transport expenditure	975,330	Running charts
(c) Building rent income	1,080,000	Rent agreement.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Section 28(1) of the Mines and Minerals Act, No.33 of 1992	Although Sri Lanka Land Reclamation and Development Corporation is engaged in the sale of sea sand since the year 2008, no trade licences or transport permits had been obtained from the Bureau for that purpose. The transportation of sand had been made using transport permits prepared by that Corporation, but the Bureau had not taken necessary action in this connection.
(b) Paragraph 6(2)(a) of part II of the Payment of Gratuity Act, No.12 of 1983	Although the payable gratuity should be calculated by multiplying the sum equivalent to 14 days of the last salary of the officer with the period of service, contrary to that provision for the gratuity had been made by taking into consideration the salary of 30 days during the year under review. The approval of the Department of Management Services had not been obtained for that purpose.
(c) Section 14 (1) of the Finance Act, No.38 of 1971 and Public Enterprises Circular No.PED 12 dated 02 June 2003.	A draft annual report had not been furnished along with the financial statements.

- (d) Section 11 of the Finance Act, No.38 of 1971 Without being obtained required approval, sums of Rs.219,735,981 and Rs.579,077,890 had been invested in Treasury Bills and fixed deposits respectively.
- (e) Value Added Tax Act, No.14 of 2002 Value Added Tax amounting to Rs.23,980,451 relating to the royalty advances of Rs.149,117,003 for which applications had been entertained from 2006 to 2012 but licenses were not issued and the permit charges of Rs.81,290,903 pertaining to the period from the year 1993 up to the year under review had not been remitted to the Department of Inland Revenue.
- (f) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.  
Financial Regulation 104 (2) Although two vehicles owned by the Bureau had met with accidents during the year under review, it had not been reported to the Auditor General.
- (g) Public Administration Circular No.30 dated 30 April 1994 Although the receipts of foreign aid should be reported to the Director General of Foreign Resources and the Auditor General, action had not been taken accordingly with regard to the equipment and funds received from the Germany and America for the Earth Tremor Measurement Towers.
- (h) Section 02 of the Public Administration Circular No.15/2001 dated 07 August 2001 In order to record arrival and departure of the employees of the Gampaha Divisional Secretariat, a finger print machine had not been utilized from July 2013 up to the reporting date.
- (i) Section 02 (b) of the Public Administration Circular No.08/2014 dated 31 March 2014. It was observed at the audit test check that the employees had left the station without covering the prescribed hours of service.
- (j) Public Enterprises Circulars No.PED/56 dated 27 January 2011 Having retained an adequate sum for the working capital requirement for a period of ensuing 06 months, all the balance sum should be credited to the Consolidated Fund, whereas it had not been so done by the Bureau.

- (k) Letter of the Department of Management Services dated 17 June 2013. Scheme of recruitment and promotion had not been prepared and approved in terms of the provisions of the Department of Management Services Circular No.30 and the approved restructuring proposal had also not been implemented.
- (l) Letter of the Department of Management Services dated 28 June 2013. Without prior approval of the Department of Management Services, 02 new posts had been created in addition to the approved cadre and two officers had been recruited to those posts. A sum of Rs.118,379 had also been paid as salary during the year under review.
- (m) Letter of the Ministry of Finance No PE1/000/6 dated 02 August 1996. Even though approval had been received for the payment of incentives up to 50 per cent of net earnings of the Bore Holes and Mineral Investigation Projects, contrary to that having considered the inspection charges relating to the field inspections conducted for the general licences, Test Blast charges and the entire laboratory income as the net earnings of the Bore Holes and Mineral Investigation Projects, the Bureau had erroneously paid a sum of Rs.60,823,367 as incentives without having authority.

### **3. Financial Review**

#### **3:1 Financial Results**

According to the financial statements presented, the financial results of the Bureau for the year ended 31 December 2014 amounted to a pre-tax net profit of Rs.842 million as compared with the corresponding pre-tax net profit of Rs.624 million for the preceding year. As compared with the preceding year, the financial result indicated an improvement of Rs.218 million during the year under review. The increase in royalty income and the project income by Rs.453 million and Rs.9 million respectively had been mainly attributed to this improvement.

### **3.2 Analytical Financial Review**

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The following observations are made

- (a) The royalty charged from mining had been increased from 2 per cent to 4 per cent and therefore, royalty income of the year under review had increased by Rs.453 million or 66 per cent.
- (b) As compared with the preceding year the total expenditure of the Bureau had increased by Rs.196 million or 42 per cent. The increase in the administration expenses of the Bureau by Rs.139 million or 50 per cent during the year under review had been the main reason for the increase in the expenditure.

## **4. Operating Review**

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### **4.1 Performance**

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According to the Action Plan, the progress of 40 activities including the preparation of maps pertaining to the surveys scheduled to be implemented by the Geology Division during the year under review, preparation of special reports for minerals, development of laboratories and provincial mineral surveys had been at minimal level of 50 per cent.

### **4.2 Operating Inefficiencies**

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The following observations are made on the matters revealed during the course of audit test check conducted on the major operations carried out by the Bureau.

- (a) Recovery of Royalty.
  - (i) Action had not been taken to recover royalty and the delay charges amounting to Rs.44,727,062 recoverable for the year under review and the preceding year in respect of a permit issued to the Sri Lanka Land Reclamation and Development Corporation for mining sand. Further, action had not been taken to recover the royalty exceeding Rs.100 million recoverable for a stock of 3,750,074 cubic meters of sea sand mined under the permits issued for the previous years.
  - (ii) According to the financial statements of the year under review a sum of Rs. 1,133,601,622 had been collected as the royalty. However, only a sum of Rs.650,000,000 had been remitted to the General Treasury.
  - (iii) In the computation of royalty for the metal quarry licenses, the Bureau had made the relevant computation based on the report obtained from the Controller of Explosives. It was observed in the audit that this method was not logical and effective and as a result a considerable amount of royalty for metal minning was deprived.

- (iv) Although royalty was calculated based on the market value of the minerals, that value had not been revised after 2011.

**(b) Reservation of Various Lands for Explorations activities**

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- (i) When refunding a sum of Rs.5,656,685 relevant to 96 applications for which recommendation for the release the lands for explorations had not been received since year 2003 up to 2012, any field inspection in the lands reserved relating to that permits had not been carried out. Further, despite the rejection of appeals made to the Ministry against the disapproval of the applications for explorations, 15 new applications had been entertained without having the recommendations.
- (ii) As above, although the Bureau had specially allocated lands for the explorations in the vicinity of the beach, action had not been taken to obtain reports on either the progress on the explorations or the mineral found. Further, mining licences should be obtained on completion of the explorations, whereas it had not been so done. Although there was tendency for unauthorized mining on the ground of the allocation of lands by the Bureau in such a manner, any follow up action had not been taken in this connection.

**(c) Issue of Licences and Recovery of Licence Charges**

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- (i) Despite being fulfilled the requirements to be satisfied prior to issue of a licence, Bureau had recovered a full licence fee and the relevant Value Added Tax and the Stamp fee along with the application. In addition, advances had been obtained for the royalty according to the amount of minerals mined on the licence since the year 2006. Nevertheless, the Value Added Tax payable for the aforesaid royalty had not been recovered from the applicants even by January 2015.
- (ii) Since Bureau had not established a raiding unit to control illegal mining, unauthorized mining had taken placed island wide. But it had been failed to take legal action in this regard.
- (iii) Although the Environmental Clearance Certificates issued by the Central Environment Authority should be obtained before carrying out the mining , in many instances licences had been issued without those Environmental Clearance Certificates.

**(d) Control of Laboratory Equipment.**

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- (i) The platinum equipment in the laboratory weighing at 1,491 grams had not been categorized according to their capacity and the weight and the inventory registers had also not been updated. Without being confirmed the cleanliness and the value of the aforesaid platinum by an independent institute, those had been valued by the officers of the Bureau and shown in the financial statements.
- (ii) Three items (50 cc dish) under the item No.2064 in the Board of Survey Report had not been furnished to audit for physical verification.



- (iii) Five category of equipment weighing at 102 Grams furnished to physical verification had not been recorded in the inventory.
  
- (e) When sand mining and clay mining are carried out around the Ma-Oya, the Attanagalu Oya and the Kelani river, it had been done in a manner violating the licence conditions and causing environmental damages. Nevertheless, issuing and renewal of licences had been continued without being considered the violation of the conditions.

#### **4.3 Transactions of Contentious Nature.**

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Contrary to the objectives of the institute, the Bureau had paid a sum of Rs.1,786,640 to external institutions for various purposes during the year under review.

#### **4.4 Staff Administration**

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- (a) The approved and the actual staff as at 31 December 2014 had been 405 and 317 respectively. Accordingly, there were 88 vacancies. Instead of taking action to fill 54 vacancies in Non-Staff Grade and 11 vacancies in the minor staff, employees had been recruited on contract basis from a private company and payments had been made.
  
- (b) A transfer procedure had not been formulated for the transfer of officers between the head office and the regional offices. Therefore, officers had been employed in regional offices for a long period from 8 years to 14 years.
  
- (c) The report of the inquiry carried out on the irregularity revealed in July 2013 relating to the record of arrival and departure of the officers of the Gampaha Regional Office had not been furnished even as at July 2015.

#### **4.5 Idle and Underutilized Assets.**

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The Fuel sensors and Geographical Position System installed to the vehicles of the Bureau in the year 2011 had been removed and the amount spent by the Bureau for the purchase of the system amounted to Rs.2,880,000.

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

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#### **5.1 Action Plan**

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In terms of the Public Enterprises Circular No.1/2014 dated 17 December 2014, an Annual Action Plan including the activities targeted for the achievement of objectives of the Act should be prepared. However, Action Plan of the Ministry had not been prepared accordingly.

**5.2 Budgetary Control**  
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Significant variances were observed between the budgeted and actual income and expenditure. As such 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 2013 had not been tabled in Parliament even by May 2015.

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

- (a) Human Resources Management
- (b) Recovery of Royalties
- (c) Issue of Licences.
- (d) Inventory Control
- (e) Mining activities
- (f) Budgetary Control.