

## **GSMB Technical Services (Private) Limited -2016/2017**

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The audit of financial statements of GSMB Technical Services (Private) Limited for the year ended 31 March 2017 comprising the statement of financial position as at 31 March 2017 statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended 31 March 2017 and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My observations which I consider should be furnished to the Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board of Directors' Responsibility for the Financial Statements**

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The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-size Enterprises and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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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. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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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 GSMB Technical Services (Private) Limited as at 31 March 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-size Enterprises.

#### **2.1.1 Reporting on other Legal and Regulatory Requirements**

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

- (a) The basis for the opinion and the scope and extent of audit are as stated above.
- (b) In my opinion,
  - I had obtained all the information required for audit and, as indicated by my examination, the Company had maintained proper accounting reports and,
  - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No.07 of 2007.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Sri Lanka Accounting Standards for Small and Medium- size Enterprises**

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The following non- compliances were observed.

- (a) Action had not been taken to recover a sum of Rs.2,049,600 receivable from projects from a period of 07 years and action had not been taken even to identify the impairment loss that could be occurred by it and to adjust it to the accounts, in terms of Section 11: 21 of the Standard.
- (b) Even though fully depreciated fixed assets costing Rs.38,205,552 had been continuously used by the Company in terms of Section 17.19 of the Standard, action had not been taken to re-evaluate the useful life and the residual value of the asset for the presentation of financial statements.
- (c) Either the useful life or the depreciation ratio for each class of property, plant and equipment totalling Rs.19,135,797 had not been disclosed by notes in the financial statements in terms of Section 17.31(c) of the Standard.
- (d) Action had not been taken either to identify or to adjust the deferred tax assets of the Company valued at Rs.2,877,114 in terms of Section 29 of the Standard

- (e) Even though assets and liabilities and income and expenditure should not be set-off unless required by Sri Lanka Financial Reporting Standards in terms of Section 2.52 of the Standard, the net income of 09 sand projects and sales centres maintained in the Polonnaruwa District amounting to Rs.47,583,439 had been stated in the financial statements without separately calculating the profit/loss.

### **2.2.2 Accounting Policies**

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A Policy on the Profit Margin of the Company for 01 cube of sand being mined from the sand projects had not been established and various profit margins had been kept for various sand projects.

### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Even though the sales income of 5,897 cubes of sand of Mongillaru Sand Project had been a sum of Rs.12,090,737, that income had been understated by a sum of Rs.201,378 due to stating it as a sum of Rs.11,889,359.
- (b) Gratuity amounting to Rs.106,250 had not been provisioned for those employees of the Company who had exceeded 05 years of their service period attached to the Geological Survey and Mines Bureau.
- (c) The provision of Gratuity had been overstated by a sum of Rs.556,253 due to calculating gratuity based on the number of months in addition to the number of serving years instead of calculating Gratuity for the total number of years of service.
- (d) The final stocks balance of the Sands Sales Centre of the 28<sup>th</sup> Mile Post had been understated by a sum of Rs.278,444 due to not considering sacks filled with sand and empty sacks in the valuation of stocks.
- (e) Income amounting to Rs.3,900,229 and tax payable amounting to Rs.1,092,064 had been understated due to not taking action to account the Nation Building Tax as a portion of the tax income.
- (f) The economic service fees liability had been understated by a sum of Rs.1,377,854 due to not considering the revised ratio and due to under-accounting of the income in charging the Nation Building Tax.
- (g) The economic service fees paid in the preceding years amounting to Rs.262,860 that could not be set-off for income tax had been stated in the accounts as a receivable balance.
- (h) The income tax payable had been overstated by a sum of Rs.448,992 due to fraudulently utilizing the capital allowance ratios in calculating income tax.

- (i) The income tax liability and current assets for the year had been overstated by a sum of Rs.404,943 due to posting in the accounts the income tax calculated for the 4<sup>th</sup> Quarter as Accrued Income Tax and as income tax paid forward.

#### **2.2.4 Unexplained Differences**

Even though the contribution of the Employee Provident Fund and the contribution of the Employees Trust Fund relating to the year under review according to the Ledger Accounts had been sums of Rs.10,536,165 and Rs.2,634,041, differences of Rs.980,603 and Rs.248,109 were observed due to stating that contribution as sums of Rs.9,555,562 and Rs.2,385,932 respectively according to the financial statements.

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

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

##### **Reference to Laws, Rules and Regulations**

##### **Non- compliances**

- (a) Section 10 of the Employee Provident Fund Act No.15 of 1958.

- (i) Even though the total earning received from the service of the employees in calculating provident funds, the provident funds had been calculated only for earnings relating to the first 15 cubes of sand monthly mined, for the employees of the Manampitiya Sand Mining Project.

- (ii) Even though an employee related to the Act should be bound to pay contribution money to the Fund within the period of his employment of the insured profession, only a portion of employees out of the employees of the Manampitiya Sand Mining Project had not been contributed to the Employee Provident Fund and to the Employees Trust Fund. Moreover, all employees attached to other 05 sand mining projects on the Polonnaruwa District had not been contributed to the Employee Provident Fund and to the Employees Trust Fund.

- (b) Public Enterprises Circular No.PED/12 of 02 June 2003.

- (i) Paragraph 5.2

The Budget had not been furnished along with the Budgeted Statement of Financial Position.

(ii) Paragraph 5.1.3

Even though copies of the Budget approved by the Board of Directors should be sent to the relevant Line Ministry, to the Department of Public Enterprises, to the Treasury and to the Auditor General, action had not been taken accordingly.

(c) Public Enterprises Circular No.PED  
05/2016 of 16 December 2016

Even though the profit of the year should be identified before making the payment of bonus in terms of the Circular, a total sum of Rs.1,263,064, that is, a sum of Rs.13,500 each for an employee had been paid on 17 January 2017 based on the number of working days for the year ended 31 March 2017, contrary to that provision.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the net profit of the Company for the year under review amounted to Rs.44,976,120 as compared with the corresponding net profit of Rs.2,891,974 for the preceding year, thus indicating an improvement of Rs.42,084,146 in the financial result in the year under review as compared with the preceding year. The increase of the income from the projects by a sum of Rs.57,425,956 and the increase of the non- operating income by a sum of Rs.2,707,900 had been the main reason for the improvement of the above financial result.

### **4. Operating Review**

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#### **4.1 Performance**

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

(i) The permission had been granted by the Supreme Court to the Company for mining sands in the Manampitiya area in the year 2008 with the objectives of controlling flood in the Polonnaruwa District and eliminating the shortage of sand in other districts. The transportation of sand outside the Polonnaruwa District had been defaulted on a decision made by the District Coordination Committee, Polonnaruwa from 25 July 2016, contrary to that court verdict. A shortage of sand had been occurred in other districts due to the decrease of the supply of sand under the Manampitiya Sand Project and it had been a reason even for the increase in the market price of sand.

- (ii) Even though the permission had been granted by the Department of Wildlife Conservation to mine sand to a distance of 02 kilometers in the river in the lower area of the Manampitiya Bridge, the occurrence of flood in Somawathi and Polonnaruwa areas could not be controlled on 3/4<sup>th</sup> of the river being submerged by a large sand plain on not mining sand from that area by the Company.
- (iii) Even though a large number of labourers had been registered for sand projects, the production of sand had been decreased due to a low number of persons of 30 per cent being deployed in service and due to monitoring activities being insufficient and even the supply to the market had been excessively decreased than the requirement and the targets.
- (iv) The fluctuation in the amount of sand produced by sand projects in the Polonnaruwa District including Manampitiya implemented by the Company and the cost of the Company for one cube of sand had been critically affected towards determining the price of sand in the market. As such, even though the price of one cube of sand remained at a high level ranging from a sum of Rs.4,100 to a sum of Rs.4,450 due to various charges from the Geological Survey and Mines Bureau, Mahaweli Authority of Sri Lanka, Department of Wildlife Conservation, Polonnaruwa Development Fund, for the rehabilitation of river banks and sand mining paths and for the fulfillment of social responsibilities in addition to the mining cost of one cube of sand, attention had not been paid towards controlling of price by the Company.
- (v) Even though it had been expected to eliminate the shortage of sand in Colombo and other areas by the Manampitiya Sand Project in terms of the verdict of the Supreme Court, greater amount of sand out of the sand mined had been issued to 03 companies located in Polonnaruwa and the details as to whether the sand was utilized for which type of function, were not owned by the Company.

#### **4.2 Transactions contrary to Objectives**

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Two Tipper vehicles had been purchased for the transportation of sand by spending a sum of Rs.9,025,000 contrary to the objectives of the establishment of the Company.

#### **4.3 Management Activities**

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The following observations are made.

- (a) The mining activities of the Wellawaya Kotigambokka Quartz Deposit Mining Project had not been initiated even by the date of audit of 31 October 2017 and even though a sum of Rs.6,327,849 had been spent in the year under review for leasing a land for storing quartz, installing bridges of scale, maintaining security activities and other activities, any income whatsoever had not been earned.
- (b) Even though the writing of sand transportation licenses issued by the Geological Survey and Mines Bureau should be carried out by that Bureau, 16 employees had been deployed in service, making payments of salary by the Company for writing sand transportation licenses in Sand Mining Centres in Polonnaruwa.

- (c) Even though sand mined in the Aralaganwila Sand Mining Project should be sold by storing in other place, a trade license had not been obtained for it.
- (d) Distress loans and other Advances had been issued to the employees recruited on contract basis and distress loans and other Advances amounting to Rs.1,304,500 issued to the employees of the Company and to the employees of the Manampitiya Sand Mining Project in that manner could not be recovered due to those employees being resigned from their service.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) It had been entrusted to the Company to remove 20,000 cubes of sand removed from the stream in the reconstruction of the Mongillaru Oya belonging to the Department of irrigation. The following observations are made in this connection.
  - (i) Even though 20,000 cubes of sand comprised in the stock of sand according to the Investigation Report of the Regional Engineer of the Geological Survey and Mines Bureau, only a sum of Rs.11,889,359. income relating to 5897 cubes of sand had been received to the Company, according to the Sales Reports. Even though remaining 14103 cubes of sand valued at Rs.28,915,633 had been removed, any income whatsoever had not been received to the Company relating thereto.
  - (ii) Even though sand removed from the stream did not belong to the contracting company of which the reconstruction of the stream was carried out, a sum of Rs.5,897,000 had been paid to the contracting company for 5,897 cubes of sand, by the Company.
  - (iii) Even though the valid period of the trade license issued to the company for selling sand had been ended on 28 April 2016, 1,539 cubes of sand had been sold by the Company without a valid license even after that date.
- (b) Even though activities such as retail price of sand, distribution, supply of sand, purchasing Tipper vehicles, salaries of the employees of the Polonnaruwa Sand Projects should be decided by the Board of Directors, the Company had taken action on the decisions made in the meetings conducted in the District Secretariat Office, Polonnaruwa, contrary to it.

#### **4.5 Human Resources Management**

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The following observations are made.

- (a) Even though it had lapsed over 16 years after the establishment of the Company, the approved Organizational Plan and the Scheme of Recruitment had not been prepared and approved in terms of the Public Enterprises Circular No.PED/12 of 02 June 2003.
- (b) The staff of the Company should consist of 05-06 officers including the Chief Executive Officer in terms of the approval of the Cabinet of Ministers for the establishment of the Company and employees should be recruited on contract basis for the projects executed by the Company. However the entire staff of the Company being 126, including 86 employees of the projects had been deployed in service on contract basis, contrary to it.

(c) Allowances amounting to Rs.415,000 had been paid in the year by obtaining the service of 07 officers of the Geological Survey and Mines Bureau despite there was an experienced and sufficient staff in the Company to execute the function and duty of the Company.

(d) Appointments had been made on contract basis by the Company to the persons selected in an improper manner by the Geological Survey and Mines Bureau and had been deployed in service in various posts in the Bureau and 107 employees had been deployed in service in that manner in the year under review.

#### **4.6 Idle and Underutilized Assets**

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

#### **4.7 Resources of the Company given to other Government Institutions**

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Salaries amounting to Rs.1,095,000 had been paid by the Company in the year under review to two Clerks and to two Office Assistants deployed for office activities of the Deputy Minister of Mahaweli Development and Environment.

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

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#### **5.1 Corporate Plan**

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A Corporate Plan had not been prepared for the Company in terms of Section 5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

#### **5.2 Action Plan**

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An Annual Action Plan had not been prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014.

#### **5.3 Internal Audit**

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Action had not been taken to prepare the Internal Audit Plan and to obtain the approval of the Board of Directors before the commencement of the Year of Accounts and the key subject areas including the projects had not been subjected to audit. Even though the Internal Auditor of the Geological Survey and Mines Bureau had been appointed as the Internal Auditor, a staff and other facilities had not been provided in a manner that a sufficient internal audit could be carried out.

#### **5.4 Budgetary Control**

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As variances ranging from 11 per cent to 866 per cent between the budgeted and the actual amounts of the Company were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 5.5 Achievement of Environmental and Social Responsibilities

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Mining sands had been defaulted by the order of the Geological Survey and Mines Bureau in few places in Maduru Oya due to the large scale of erosion of river banks and due to falling off of trees in those places, where mining of soil is being carried out under the Welikanda Sand Mining Project. However, action had not been taken by the Company to rehabilitate the damaged river banks, as informed by the Geological Survey and Mines Bureau.

## 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 Company from time to time. Special attention is needed in respect of the following areas of systems and control.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(i) Control of Vehicles	Not properly maintaining the vehicle running charts.
(ii) Human Resources Management	(a) Not paying attention towards the human resources plan, the Schemes of Recruitment and Promotion.  (b) Not properly executing the assignments of duty, arrival and departures, Leave and Short Leave Registers in the Regional Centres.
(iii) Control of Assets	Not properly maintaining the Registers of Assets in the Regional Centres.
(iv) Financial Control	(a) Making payments by petty cash the payments that could be made by cheques.  (b) Not taking action to safely keep and bank without delay the money collected by the Regional Centres.