

## **Geological Survey and Mines Bureau – 2016**

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The audit of financial statements of the Geological Survey and Mines Bureau for the year ended 31 December 2016, comprising the statement of the financial position as at 31 December 2016 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended 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 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 Auditing 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 Adverse Opinion

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Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

## 2. Financial Statements

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### 2.1 Adverse Opinion

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In my opinion, because of the significance of the matters described in paragraph 2:2 of this report, the financial statements do not give a true and fair view of the financial position of the Geological Survey and Mines Bureau as at 31 December 2016 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 Consolidated Financial Statements

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Even though the Bureau has 66 per cent ownership of GSMB Technical services Company affiliated to the Bureau with net assets of Rs.108,272,097 as at 31 December of the year under review, consolidated financial statements had not been furnished by consolidating the financial statements of that Company with the financial statements of the Bureau.

#### 2.2.2 Sri Lanka Public Sector Accounting Standards

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##### (a) Sri Lanka Public Sector Accounting Standard 01

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- (i) In disclosing provisions for gratuity in the financial statements **in terms of Sections 82, and 83(a) of the Standard**, the total provision for gratuity amounting to Rs.131,042,056 had been shown as non-current liabilities instead of showing the gratuity payable to the employees who had exceeded the age of retirement, as current liabilities and the balance as non-current liabilities.

\* The whole balance of Rs.7,821,979, out of the amount received from a Foreign university for maintenance activities of the Tsunami Communication Centre, Pallekele, had been brought to account as a current liability instead of accounting as a non-current liability.

- (ii) In terms of Section 118 of the Standard, 2 funds amounting to Rs.25,560,400 and a grant of Rs.10,400 which do not come under equity of the statement of changes in equity, had been shown under equity.

- (iii) In terms of Sections 82, 83 (a) of the Standard, information in respect of 16 Regional Offices of the Bureau and other information which should be disclosed through Notes, had not been disclosed accordingly.

**(b) Sri Lanka Public Sector Accounting Standard 03**  
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Even though the rate of depreciation on buildings had been decreased from 20 per cent to 5 per cent, the said change had not been disclosed in the financial statements in terms of Section 44 of the Standard.

**(c) Sri Lanka Public Sector Accounting Standard 07**  
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Even though depreciation of an asset should commence from the date on which that asset was available for use in terms of Section 69 of the Standard, property, plant and equipment valued at Rs. 525,923,903 had been depreciated on the value existed as at the end of the month in which those were purchased.

**2.2.3 Accounting Policies**  
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The following observations are made.

- (a) The Policy on issuance of stocks had not been revealed in the accounts.
- (b) The minimum value of an asset which should be brought to account as fixed assets, had not been revealed through accounting policies.
- (c) An accounting policy had not been identified by the Bureau for accounting local and foreign government capital grants and local grants of Rs. 10,399 and foreign grants of Rs. 16,968,107 had been shown under the equity of the statement of financial position as at 31 December of the year under review.

**2.2.4 Accounting Deficiencies**  
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The following observations are made.

- (a) Assets valued at Rs. 2,046,540 purchased for clients and of which the expenditure was reimbursed, had been brought to account as assets of the Bureau.
- (b) Even though lands valued at Rs. 199,962,533 owned by the Bureau had been vested legally with other Government institutions in preceding years, those had been further shown in the accounts as fixed assets.
- (c) Action had not been taken to vest and account the land of 129 perches in extent and the building of the Ministry of Mahaweli Development and Environment, in which the Head Office functions, which were vested by the Urban Development Authority with the Bureau.

- (d) Even though the expenditure on gratuity relating to the year had been Rs. 13,892,899, it had been shown as Rs. 13,282,442 in the statement of financial performance and as such expenditure on gratuity had been under stated by Rs. 610,457.
- (e) A sum of Rs. 5,447,160 had been paid by cash as the gratuity in the year under review. However, when recording it in the cash flow statement, the interest on Gratuity Fund of Rs. 646,884 to be adjusted under working capital changes and distress loan of Rs. 2,570,304 recovered in the payment of gratuity had been adjusted and shown as gratuity payment of Rs. 7,370,580.
- (f) Under provisions for incentive amounting to Rs. 1,161,325 of the preceding year had been adjusted to the profit of the year under review instead of accounting in retained earnings.
- (g) Tax of Rs. 6,156,849 collected from income from investments had not been shown in accounts. As such, income and assets had been understated by the similar amount.
- (h) Even though the income tax of the Bureau of the year under review amounted to Rs. 33,514,439, a sum of Rs. 27,315,639 had been shown in the statement of financial performance as the income tax payable after setting off the withholding tax.
- (i) Fifty two bottles of Acid and 171 bottles of various chemicals remained in the analysis laboratory as at the end of the year had not been computed and shown as closing stocks in the year under review.
- (j) Expenditure on the staff, renovating of offices and projects amounting to Rs. 9,499,181, Rs. 1,450,874 and Rs. 1,618,283 incurred from the year 2011 to the year 2016 by the GSMB Technical Services Company on behalf of the Bureau, had not been brought to account.
- (k) Even though out of trade and other debtors of Rs. 157,752,554 a sum of Rs. 1,671,390 had exceeded 5 years as at the end of the year under review, provisions for bad debts had not been made therefore.

### **2.2.5 Unexplained Differences**

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In the reconciliation of the financial statements with reports on physical verification, a difference was observed in a stock of books and maps valued at Rs. 668,527.

### **2.2.6 Lack of Evidence for Audit**

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Evidence for confirmation of assets valued at Rs. 1,984,210 received from foreign grants, which had been remaining from 23 years, had not been made available to Audit.

## 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Even though the Goods and Services Tax had been cancelled in the year 2002, a sum of Rs. 973,143 paid in excess had not been settled in the relevant years, thus indicating as a balance receivable in accounts.
- (b) Advances of Rs. 1,500,000 granted in the year 2014 to a then Chairman of the Bureau for a public awareness programme had been shown in accounts as a balance receivable without taking action to settle them.

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

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The following instances of non-compliance were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Sections 26(1) and 44 (b) of the Mines and Minerals Act, No.33 of 1992	Even though the royalties recovered by the Bureau for the Government should be sent to the Treasury, royalties of Rs.428,601,622, Rs.438,810,229 and Rs.568,348,602 received in the years 2014, 2015 and 2016 respectively had been retained without remitting to the Treasury.
(b) Finance Act No.38 of 1971 Section 9(2)(f)	A sum of Rs.1,010,235,812 remitted to the Treasury in the year under review had been understated in accounts as an equity instead of accounting as expenditure.
Section 11	Even though sums of Rs.250,271,935 and Rs.1,362,072,135 had been invested in Treasury Bills and fixed deposits respectively as at the end of the year under review, the relevant approval had not been obtained therefor.
(c) Paragraph 6(2)(a) of Part II of the Payment of Gratuity Act, No.12 of 1983	In the computation of gratuity, it had been computed based on the monthly salary instead of half a month's salary since the year 2015. As such, a sum of Rs.4,580,276 had been overpaid to 10 persons.
(d) Establishments Code of the Democratic Socialist Republic of Sri Lanka.	
(i) Section 10 of Chapter XXIV and the National Budget Circular No.142 of 31 December 2008.	Distress loans had been paid to 133 officers exceeding Rs.250,000 based on the gross salary. As such, a sum of Rs.31,991,022 had been overpaid.

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| (ii) Sections 1.4 and 1.4.1 of Chapter XXX                                      | Three officers had supplied professional services to an affiliated institution of the Bureau without permission of the Secretary and earned a sum of Rs.1,969,500 in the preceding year. However, action had not been taken to recover a certain percentage of the said amount to the Bureau in terms of the provisions of the Establishments Code. |
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| (e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka     |   |
| (i) Financial Regulation 104  | Action in terms of Financial Regulations had not been taken in respect of 26 motor vehicle accidents in the year under review.  |
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| (ii) Financial Regulation 371(5)  | Balances of Sub-Imprsrts of Rs.1,382,800 unsettled as at the end of the year under review had been brought to account as cash and cash equivalent assets without settling them.   |
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| (iii) Financial Regulation 396  | Action in terms of Financial Regulations had not been taken in respect of 3 cheques valued at Rs.654,830 exceeded 6 month from the date of issue.   |
| (iv) Financial Regulation 757   | Stock verification for fixed assets of the Head Office, Regional Offices and Laboratories had not been carried out and reports thereon had not been furnished to the Auditor General.   |
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| (f) Section 6.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | Audit and Management Committee Reports had not been included in the Draft Annual Report for the year 2016.  |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Bureau for the year under review had been a profit of Rs.1,564,027,187 as compared with the corresponding profit of Rs.1,037,093,870 for the preceding year, thus indicating an improvement of Rs.526,933,317 in the financial results of the year under review as compared with the preceding year. Even though expenditure on operations of regional offices of the Bureau and provisions for incentive had increased by Rs.30,679,940 and Rs.30,000,000 respectively, the increase in royalty income, license charges, tests income, financial income and other income by Rs.285,151,382, Rs.144,795,562, Rs.65,010,116, Rs.47,378,282 and Rs.22,790,816 respectively had been the main reason for this improvement.

An analysis of financial results of the year under review and 04 preceding years revealed a decrease in the profit of the year 2013 as compared with the year 2012. Nevertheless, a continuous improvement in the profit was observed from the year 2013 up to the year 2016. Taking into consideration the employees' remuneration, Government tax and depreciation on the non-current assets, the contribution of the Bureau which was Rs.907,668,917 in the year 2012 had continuously improved up to Rs.2,081,082,775 in the year 2016.

### **3.2 Legal action initiated against or by the Bureau**

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External parties had filed 17 cases against the Bureau while the Bureau had filed 07 cases against external parties.

## **4. Operating Review**

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### **4.1 Performance**

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In terms of the Mines and Mineral Act, No.33 of 1992, the main objectives of the Bureau were the preparation of geological maps, identification of mineral resources, regulating the exploration and mining for minerals and trading in and export of such minerals. The following observations are made in respect of achieving objectives.

- (a) Out of the functions of the Bureau, the progress of the preparation of geological maps, identification and assessment of mineral resources had been at a slow pace and any activity such as evaluation of commercial viability of mining, processing and export of minerals, advising the Minister on the measures to be adopted for the extraction, production and promotion of mineral on a commercial basis had not been carried out.
- (b) The following observations are made in respect of the performance of the Geology Division of the Bureau.
  - (i) According to the Action Plan of the year 2016, provisions of Rs.58,539,100 had been made for 12 activities planned to be performed by the Geology Division. However, the performance according to action Plan and the progress shown in the Draft Annual Report could not be examined due to failure in preparation of Annual / Quarterly Performance Report of those activities or maintenance of documents necessary for each activity.
  - (ii) It had been failed up to 31 July 2017 to issue the Mineral Manual – 2015 and even though provisions of Rs.6.8 million had been made for the Library and the Museum, adequate physical and financial performance had not been shown in relevant Divisions even in the year under review.

## 4.2 Management Activities

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The following observations are made.

- (a) The royalty of Rs.465,546,966 recoverable for 3,909,669 cubes of sea sand mined for the construction of the Colombo Port City, had not been recovered.
- (b) Action had not been taken to recover the royalty of Rs.3,001,788 recoverable due to removal of soil by violating conditions of the licence relating to 4 licences issued for the Extension of Southern Expressway Project. Further, proper supervision in mining or proper evaluation in renewing licences had not been carried out by the Authority and even though one licence holder had violated conditions, licences had been renewed contrary to Section 36(a) of the Mines and Minerals Act.
- (c) Even though the employers' contribution and employees' contribution for the Employees' Provident Fund should be to the ratio of 3:2, the employers' contribution and employees' contribution of the Bureau had been 12 per cent and 10 per cent respectively. As such, the employers' contribution had been under paid by 3 per cent. No information whatsoever had been disclosed in notes of accounts as well on the employers' contribution for the Employees' Provident Fund.
- (d) Contrary to the objectives of the Bureau, a sum of Rs.6,000,000 had been paid to various institutions on the approval of the Board of Directors for 4 purposes associated with the Ministry of Mahaweli Development and Environment. The relevant files and documents for the confirmation of expenditure therefor had not been made available as well to Audit.
- (e) A raiding unit had not been established for the control of illegal mining, and as such, unauthorized mining had continuously taken place island wide. However, the Bureau had failed to take legal action in that connection and to prepare an appropriate methodology for the recovery of royalty for the quantity which had been excessively mined in instances where the mining had been done exceeding the approved amount in the licence.
- (f) When deploying officers in field inspection, only two Field Assistants had been deployed to cover 32 Divisional Secretariat Divisions in 3 Districts such as Anuradhapura, Vavuniya and Mannar.
- (g) Even though a sum of Rs.1,505,000 had been paid to a private institution for carrying out a system study in the year 2012 for the purpose of implementation of the Policy of Re-mechanism of the Government, that policy had not been implemented even up to the year under review.
- (h) Mining licences had not been issued on the results of explorations relating to 42 mineral sand exploration licences issued from the year 2011 to the year 2016.

- (i) A document of calling for proposals should be prepared in terms of the Cabinet Decision No.12/1383/527/0121 of 14 November 2012 for arranging necessary activities to carry out mining in compliance with laws, rules in the manner to minimize the environmental and social effects caused by mineral sand mining. However, despite elapse of over 4 years, such a document had not been prepared. Even though follow up action should be taken to check whether the institutions by which mining and exportation of minerals are carried out, do the value addition properly in terms of that Cabinet Decision, steps had not been taken therefor as well.
- (j) The full licence fee, the relevant Value Added Tax and the Stamp fee had been recovered along with the application prior to obtaining recommendations required for the issue of licences. In addition, advances had been obtained for the royalty to be recovered on the quantity of mineral mined under the licence. As such, a large amount of money relating to the applications for which the licences could not be issued had constantly accumulated in the Bureau and the total thereof as at the end of the year under review amounted to Rs.170,361,042.
- (k) Acts of Misconduct in respect of preparation and submission of Fudge Documents  
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- (i) According to a report on preliminary investigation conducted in respect of preparation of fudge documents in terms of Chapter XL VIII of Volume II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, 6 officers had been identified as accused. However, only 3 out of those officers had been issued charge sheets.
- (ii) Even though the report on preliminary investigation recommended that two officers should be interdicted, only transfers had been made and a sum of Rs.130,118 had been spent for participation of an officer for a foreign workshop.
- (iii) Even though the Department of Police should be informed in this regard, it had not been so done.
- (l) The bank guarantees of Rs.52,014,000 had been assigned to the Bureau since the year 2009 due to failure in taking action to rehabilitate the excavation sites(environment) by the licence holders subsequent to the mining. Nevertheless, legal action had not been taken against the licence holders who had violated the conditions or to black list them. The Bureau had not paid attention on environmental and social issues arisen due to failure in carrying out rehabilitation activities in the relevant sites.
- (m) Issue of Mining Licences for the Uma Oya Multipurpose Development Project  
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- The instances where limits of explosion, stipulated in the Mining Licences and Environment Protection Licences relevant therefor, had exceeded in excavations relating to constructions of Puhulpola Dam and link tunnel of 3,870 meters in length, that joins the dams at Puhulpola and Dyaaba reservoirs and observations thereon are given below.

- (i) The prescribed Ground Vibration Particle Velocity of 5 mm/sec had exceeded 19.6 mm/sec in 269 explosions out of 2034 explosions carried out in the construction of the link tunnel during the period from December 2015 to November 2016.
- (ii) The Air Blast Over Pressure of 120db had exceeded even in 170 explosions out of 1,607 explosions carried out in the construction of the Puhulpola Dam during the period from December 2015 to November 2016.
- (iii) Even though the Supervision Company had informed the contractor with a copy to the Bureau in respect of exceeding of these limits, the contractor had not taken action thereon. The Bureau as well, who had issued mining licenecs, had not taken adequate steps for the control of those activities and extended the mining licence from 24 March 2016 for the link tunnel.
- (iv) Despite having revealed that the explosions had been carried out so as to exceed the limit, the Bureau had increased the explosion parameters twice during the relevant year, which are stipulated in the Environment Protection Licence issued by the Central Environment Authority for the link tunnel from 02 October 2015 up to one year. Details are as follows.

Specified Parameters -----	Increase in Parameters -----		
	04 December 2015 -----	13 May 2016 -----	
Maximum number of Bore Holes	45	80	75
Maximum Depth of Bore	2.2 m	3 m	3 m
Amount of materials to be used for one explosion			
Emulsion	91 kg	140 kg	149.2 kg
ANFO	12.7 kg	40 kg	48.4 kg
Nonnel Detonator	75	80	75
Electric Detonator	06	10	08
Detonator Code	3 m	3 m	10 m

Even though the contractor had excavated without obtaining mining licenec in the construction of Dyraaba Dam and the main tunnel of 15,650 meters in length, of the Project, no steps whatsoever had been taken therefor by the Bureau.

**(n) Payment of Incentive**  
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The following observations are made in respect of payment of incentive of Rs.71,161,325 in the year under review.

- (i) The Deputy Secretary to the Treasury had given the approval on 02 August 1996 for the payment of an incentive based on the performance. However, action had not been taken to prepare such an incentive scheme and obtain the approval therefor.
  - (ii) Net earnings of Rs.144,326,648 which should not be applicable for incentive, had been based in the computation of incentive.
  - (iii) Even though marks had been given based on 04 performance criteria for the payment of incentive, those had not been based and incentives for 10 months had been paid to all employees without considering their performance.
  - (iv) Even though an Action Plan had not been prepared so as to assign all officers with responsibilities, giving 45 per cent out of the marks of evaluation of performance, for the performance according to the Action Plan and failure in considering the attendance and leave of employees in the payment of incentive had been contentious.
  - (v) Five per cent or Rs.3,823,563 out of the approved amount for the payment of incentive had been credited to a Welfare Fund named Emergency Distress Fund for which approval of the Treasury had not been received.
  - (vi) In determining the net earnings which were based in the computation of incentive, overhead expenditure of 15 per cent had been deducted from the income. However, the basis on which that percentage is determined had not been disclosed to Audit.
- (o) Prompt action had not been taken in respect of audit queries and to furnish replies therefor and replies to 04 audit queries of the year under review had not been furnished even by 30 September 2017.

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

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The following observations are made.

#### **(a) Exploration of Mineral Sand and Issue of Mining Licences**

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- (i) Even though a private company had applied mining licences for mining minerals in the Wakare area in the year 2010, excavation licences had been issued by renewing twice without issuing mining licences. Two mining licenecs for minerals had been issued for 06 and 19 hectares in extent for a period of 10 years from 09 December 2014 contrary to the Mines and Minerals Act, on the agreement entered into in taking legal action by that company.

- (ii) Those licences had been issued without considering regulations that the excavation or mining licences should be issued only for investors who wish to manufacture output with local value addition in terms of the Cabinet Decision No.12/1383/527/0121 of 14 November 2012. However, when a state company which was in the same position, had applied for the mining licence in the year 2015 for mining minerals in the Kokilai area, it had not been issued due to the Decision of the Cabinet of Ministers and only the excavation licences had been extended.
- (iii) Mining licences should be issued for a year and extended annually subsequent to obtaining the relevant approvals to be submitted annually. However, the relevant licences had been issued for a period of 10 years and as such, the proper methodology could not be followed.
- (iv) No mining activities whatsoever had been carried out by the company pertaining to these 2 licences from the year 2014 to June 2017. However, in terms of the powers delegated to the Bureau by the Gazette Extraordinary Notification No.794/23 dated 26 November 1993, action had not been taken to terminate the licences or convert into excavation licences.
- (v) The said private company had obtained licences for the export of mineral based products and in the payment of royalty for the minerals exported, it had been underpaid due to erroneous computation of royalty for the value of Free on Board (FOB). According to the audit test check carried out by the Audit, it was observed that royalties had been underpaid by Rs.3,131,588 in the exportation of 8,000 Metric Tons of Non Magnetic Heavy Mineral Concentrate to China.
- (vi) This private company had obtained a Trade Licence for a period of 3 months by using a licence issued to a state company for mining minerals in the Thevikkalu area, without a concurrence of the state company. Even though 13,373 Metric Tons of minerals had been exported by stating that those minerals were mined from the Thevikkalu area under that licence, mining had not been carried out in that area and the Bureau had issued licences without examining in that connection.

**(b) Issue of Licences for mining Silika**  
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The following observations are made.

- (i) Action had not been taken by the Bureau for exploration and mapping in respect of Silika Deposits located in Divisional Secretariats such as Naththandiya, Madampe and Maha Weva in the Puttalam District and to evaluate the commercial viability of mining.

- (iii) Even though the approved depth for mining had been indicated as 10 – 15 feet in issuing 08 licences, the manner in which the depth for mining was determined without carrying out an excavation had been contentious.
- (iii) Even though the licensees had violated Conditions such as exceeding the approved limit of the depth of the mines, active mining area, the distance that should be kept from boundaries of lands, slope of mines, failure to rehabilitate the mining sites in terms of Conditions and abandoning them without being rehabilitated and failure in taking action in terms of recommendations of the Central Environmental Authority and Water Resources Board, renewal of licences, issue of new licences and release of surety had been made without taking follow up action in that connection.
- (c) Even though the Bureau had paid a sum of Rs.953,258 to two officers of the Bureau in the preceding year as combined allowance and other expenditure for a foreign training, action had not been taken to recover those money even in the year under review.

#### **4.4 Identified Losses**

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The following observations are made.

- (a) Equipment valued at Rs. 597,231 received by a then Director General had not been returned and action had not been taken to recover those losses.
- (b) A sum of Rs. 625,731,680 had been deprived of to the Bureau due to failure in obtaining the fee of Rs. 68,000,000 relating to the licence No. IML/A/HO/8328 dated 16 September 2014 issued to the Sri Lanka Ports Authority for mining sea sand for the Port City and failure in taking action to recover the royalty of Rs. 557,731,680 recoverable for 3,485,823 cubes of sea sand mined prior to the year 2016, recoverable in terms of Section 35 and 44 of the Mines and Minerals Act, No.33 of 1992.

#### **(c) Yan Oya Reservoir Project**

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- (i) The royalty recoverable as at the end of the year under review had been under recovered by Rs.34,215,010 under the mining licence issued to 41 licensees including the Chinese Company by which construction activities of the Project are carried out.
- (ii) In terms of Section 12(b) of the Mines and Minerals Act No.33 of 1992, action had not been taken to carry out geological excavations and asses the quantity of sand of the Yan Oya Sand Deposit.
- (iii) Contrary to Section 36(b) of the Mines and Minerals Act, the period of the licence had been extended without recovering the royalty of Rs.6,100,560 recoverable for 5 licences.

#### 4.5 Staff Administration

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The following observations are made.

- (a) The approved cadre and the actual cadre of the Bureau had been 407 and 318 respectively. The following observations are made in that connection.
  - (i) The service of a consultant had been obtained from the year 2009 for restructuring the staff of the Bureau and even though nearly a period of 04 years had elapsed after approving the staff, action had not been taken to prepare the relevant Schemes of Recruitment and to obtain the approval therefor. However, 12 employees had been recruited to the permanent service during the year under review.
  - (ii) The post of Director (Finance) which is a main active management function of the Bureau had been appointed under the purview of the General Manager.
- (b) Ninety two employees had been recruited on contract basis through a company affiliated to the Bureau. Out of them, 60 employees were excess and a sum of Rs. 1,939,995 had been paid per month as salaries and allowances for them.
  - (i) It had not been confirmed that the employees, who had been recruited to the service on contract basis, had fulfilled the qualifications relevant to the post.
  - (ii) A retired officer had been deployed in the service on contract basis without the approval of the Cabinet of Ministers for the post of Store Keeper who has the responsibility of custody of assets in terms of the Financial Regulation 315. Payment of a higher salary of Rs.53,004 than the salary entitled to the permanent post to the said officer on contract basis as well had been contentious.
  - (iii) Salaries for the employees recruited on contract basis had been reimbursed to the company with a marginal of 10 per cent from the salary and the amount so paid during the year under review was Rs.3,463,359. If the Bureau had recruited the employees directly, that amount would have been saved. However, attention had not been paid thereon.
- (c) Despite having recruited 12 and 92 persons on permanent and contract basis exceeding the number of vacancies, the Bureau had recruited 148 trainees and they had been deployed in regional offices up to a maximum number of persons of 20 each.
- (d) Even though the post of Director (Finance) of the Bureau had been vacant over a period of 5 months, no action whatsoever had been taken to recruit to that post.

- (e) Even though 8 vacancies existed in the post of Geological Scientists of the Bureau, two Scientists in service had been released to the Ministry of External Affairs from 17 October 2016. Moreover, action had not been taken to reimburse the salary of Rs.429,966 paid to those officers.
- (f) Four officers of the Bureau, who had proceeded abroad for studies had left the service without completing the period of obligatory service. The Bureau had failed even in the year under review to recover the penalty and other expenses amounting to Rs.2,459,663 recoverable from officers due to breach of bonds.

#### **4.6 Commencement of Projects on Lands not properly vested**

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The following observations are made.

- (a) Despite having set out in the agreement that the ownership of developments and constructions carried out on the land is vested with the lessor as at the end of the period of lease and the lessee has not any right to claim any amount in that connection, the Bureau had constructed 02 buildings by spending a sum of Rs.46,035,957 on the Werallawatta land obtained on lease basis.
- (b) The Anuradhapura Regional Office had been constructed by spending Rs.4,040,144 in the year 2014 itself without vesting the title of the land. Constructions thereof had not been completed as per the Plans and as such, shortcomings such as lack of space and availability of files in an unprotected manner, were observed.

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

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#### **5.1 Corporate Plan**

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The Corporate Plan prepared for the period of 2015-2017 had not been updated in the year under review.

#### **5.2 Action Plan**

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The following observations are made.

- (a) The Action Plan including the physical and financial performance targets and responsibilities, had not been prepared for every Division which contributes to achieve objectives indicated in the Corporate Plan.
- (b) The role of 11 Divisions of the Bureau and 14 regional offices had not been included in the Action Plan.

- (c) The **total** physical targets of the activities indicated in the Action Plan, had not been shown and a procedure had not been formulated for examination of the progress of the activities.

### **5.3 Internal Audit**

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The following observations are made

- (a) A permanent assistant audit staff comprising 4 officers approved for the Internal Audit Unit, had not been appointed and the internal auditor had been placed on a post at junior management level. As such, powers of the Internal Auditor had been limited.
- (b) Adequate training programmes had not been conducted for the improvement of professional knowledge of the Internal Auditor on the subject of auditing.
- (c) A proper Internal Audit Plan had not been prepared so as to cover all activities of the Bureau in terms of Financial Regulation 133(2). Moreover, 03 units of the Geology Division and 12 activities of the Human Resources Division had not been included in the Audit Plan and those had not been subjected to audit.
- (d) Twelve activities of audit tests relating to the Geology Division to be performed according to the Internal Audit Plan had not been performed.

### **5.4 Tabling of Annual Reports**

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The Annual Report for the year 2014 had not been tabled in Parliament even by May 2017.

### **5.5 Budgetary Control**

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Significant variances ranging from 11 per cent to 226 per cent were observed between the budgeted and actual income and 12 per cent to 295 per cent between the budgeted and actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

Further, out of 4 income sources not estimated, a sum of Rs.2.9 million had been earned. The Distress Fund comprised of a balance of Rs.8,592,292 as at 31 December of the year under review, had not been included in the statement of budgeted financial position.

### **5.6 Performance of Environment and Social Responsibilities**

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The following observations are made.

- (a) Even though the Bureau had taken action not to issue licences for commercial mining of sand in the Mannar Island due to environmental and social problems, the Bureau had failed to control issues as intended due to reasons such as abundance of unauthorized mining of sand carried out by using non-commercial licences and failure in involvement by the Bureau in preventing such mining.

- (b) The Bureau had issued licences contrary to the recommendations made by the Water Resources Board for protecting the ground water level and the quality of water of the area in covering mining sites with soil, subsequent to mining of silica in the Naththandiya Divisional Secretariat Division in Puttalam District.
- (c) Even though it had been revealed that severe environmental and social issues had arisen due to excavation of minerals carried out by violating conditions set out in the licence, the Bureau had not taken adequate steps to prevent such mining.

## 6. Systems and Controls

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.

Area of System and Control -----	Observations -----
(a) Accounting	Failure to pay attention on the maintenance of books and accounting errors as well as accounting standards and policies.
(b) Stores Control	Failure in carrying out proper receipt, issue and record of stocks in laboratories.
(c) Field Inspection	Failure to issue instructions on procedures to be followed in field inspections, use of diaries, submit reports on monthly work done and future programmes and shortcomings in fields and failure in reporting to regional offices on violation of conditions.
(d) Renewal of licences for sand mining	Failure to charge penalty for delays in renewing licences for sand mining, lack of a methodology to examine whether the mining had been carried out within the period of cancellation in renewing licences and failure in obtaining environmental recommendations, recommendations of the Divisional Secretary and reports on field inspection.
(e) Issue of non-commercial Licences by Divisional Secretariats	Failure in carrying out activities such as issue of licence books to the Divisional Secretariats, obtaining books and monthly summaries issued by those Secretariats and keeping duplicates in a protected manner properly and reliably under adequate supervision.
(f) Staff Administration	Failure to pay attention on obtaining approval for the staff, for the Schemes of Recruitment and to fill vacancies.