

Geological Survey and Mines Bureau - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Geological Survey and Mining Bureau for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Bureau as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bureau's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bureau or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bureau is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bureau.

1.4 Audit Scope (Responsibility of Auditor regarding the Audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bureau's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bureau to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Bureau has complied with applicable written law, or other general or special directions issued by the governing body ;
- Whether the Bureau has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Bureau is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Audit observation	Comments on Management	Recommendation
(a) In contrary to the provisions in the Sri Lanka Public Sector Accounting Standard 02, as the value of the 04 items that stated under operating activities were not adjusted correctly, the net cash flow generated under operating activities had been stated Rs. 1045 million in less and as the value of the 03 items that stated under investment activities were not adjusted correctly, net cash flow generated under investment activites had been stated Rs.8 million in less.	Action will be taken to correct the cash flow statement as per audit report.	Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards.
(b) As per Paragraph 54 of Sri Lanka Public Sector Accounting Standard 03, without taking actions to restate the financial statements by adjusting the previous year adjustments of Rs.1,196,346,664 restrospectively, all the adjustments had been adjusted to cumulative profit balance. A sum of Rs.3,153,284 that related to previous year had been accounted as expenses in the year under review instead of adjusting into accrued	The adjustments for accrued expenses will be rectified for the year under review as shown by the Auditor General and, the provisions will be done for the relevant expenses.	Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards.

expense account. Thus, the profit for the year had been stated less in the financial statements in same amount.

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| (c) | As per paragraph 88 of Sri Lanka Public Sector Accounting Standard 07, though useful life time or depreciation percentages for all the assets classes should be disclosed in the financial statements, the assets of land fences, partition of buildings, spare parts of mining, software and computer and equipment had been stated in the notes of property, plant and equipment in financial statements as separate asset class. However, the depreciation percentages for those asset classes had not been disclosed in the financial statements. | Actions will be taken to state useful life time and depreciation percentages separately into asset classes as shown in the report correctly. | Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. |
| (d) | As per Paragraph 92 of Sri Lanka Public Sector Accounting Standards 07, though the non current assets with purchased cost of Rs.462,950,272 that fully depreciated, but in use had been disclosed in the financial statements, as per Sri Lanka Public Sector Accounting Standards 03, actions had not been done to review the useful life time of the assets and adjusted in to the financial statements. | Assets are revalued once in 05 years by the Bureau. It also revalued the entire asset class and, only assets with zero net value are not revalued. Arrangements have been made to revalue the assets of lands and buildings by the year 2021. | Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. |
| (e) | As per Paragraph 15 of Sri Lanka Public Sector Accounting Standard 09, though balance inventory value should be value in the financial statements for the lower value out of cost or realizable value, without identifying the net realizable value of the inventories, the closing inventory as at 31 December 2020 of Rs.32,115,617 had been stated at cost in the financial statements. | Matters of Board of Survey of fixed assets had been temporarily stopped due to the Covid condition prevailed during the period of carrying out it. We would like to inform you that steps will be taken to submit the relevant reports for audit by doing annual stock counting. | Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. |
| (f) | As per Paragraph 39(a) of Sri Lanka Public Sector Accounting Standard 10, the accounting policy that was based for the identification of royalty income had not been disclosed in the financial statements and, the royalty income of Rs.1,602 million that stated in the | The production capacity related to mining licenses should be submitted by the licenseholders to the Bureau with the 14 format in the issuing regulations. Bureau can not determine the | Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. |

financial statements in the year under review had been accounted in cash basis.

royalty income for the year until receiving the form that included this production capacity to the Bureau. Without knowing that production capacity receivable, royalty income can not be predicted. It is informed that, as this practical issue, the royalty income can not be accounted in accrual basis. The discussions are going on solving issues practically.

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| (g) | As per Sri Lanka Public Sector Accounting Standard 12, instead of accounting the present value of the minimum lease payment related to 10 motor vehicles that obtained on the finance lease basis by discounting, the value of Rs.102,600,000 that not discounted had been accounted. The lease creditor balance had been stated in the financial statements by classifying as current and non-current correctly. | When accounting the obtaining of 10 vehicles under finance lease method, if any corrections need to be made, actions will be done by further investigating. | Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. |
| (h) | Instead of accounting the Kurunagala regional office building and land with purchased cost of Rs.28,000,000 by identifying land and building separately as per Sri Lanka Public Sector Accounting Standard 07, the total cost value had been accounted under land. Also, actions had not been done to make provisions for the depreciation of that building. | The actions will be taken to identify Kurunegala Regional Office building and the land separately and make adjustments for the relevant depreciation allocations in the future. | Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards. |

1.5.3 Accounting Deficiencies

Audit Observation	Comments of Management	Recommendation
(ආ) Although the buildings of the Mahakanadarawa and Hakmana Tsunami Centers are stated as non-current assets at Rs. 2,670,527 and Rs. 2,794,651 respectively, the relevant depreciation had not been calculated and stated in the accounts. The required details to verify the dates of the construction	The construction of these centers had taken place many years ago. As those account showed the capital expenses that incurred for those lands, it had not been depreciated. However, we	Actions should be done to calculate relevant depreciation and accounted.

	of these assets that stated in the financial statements had not been submitted to the audit.	would like to inform that the matters pointed out by the audit will be inquired and, if there is any error, it will be rectified.	
(b)	As the identification of a deferred tax liability of Rs. 6,662,408 on 04 non-taxable items, the income tax expenditure mentioned in the financial statements was more than that amount in the financial statements.	We made notes to make the relevant corrections as indicated by the audit.	Actions should be done to rectify.
(c)	The provisions for doubtful debts had not been done in the year under review and, the provisions for doubtful debts of previous year of Rs.5,097,526 had been stated in the financial statements under liabilities as creditors and payables instead of trade debtors and receivables by deducting.	Actions will be taken to deduct the provisions from the values of trade debtors and receivables as shown by the Audit.	Actions should be done to rectify.
(d)	Although the Bureau owns 66 per cent of the total share capital of GSMB Technological Services Company, that is, the equity of Rs.188,750,125 out of net assets of company, the consolidated financial statements had not been presented by consolidating the financial statements of the Company with the financial statements of the Bureau.	Required actions will be taken to prepare consolidated accounts with GSMB Technological Services Company from 2021 onwards. As a first step towards this, we would like to inform you that steps are being taken to prepare consolidated accounts for the year 2020.	Actions should be done to prepare consolidated accounts.
(e)	As per Paragraph 27(6), when adjusting non financial items to the profit, though relevant items should be stated separately, the value of Rs.3,276,493 that should be stated as amortization of an asset grant had been included in depreciation Rs.106,782,013 without stating as amortization.	As indicated by the audit, I would like to inform you that necessary corrections will be made in the future.	Actions should be done to rectify.
(f)	An adjustment (deduction) amounted to Rs.325,422 for asset class of furniture and fittings had been done and, it had not been disclosed in the financial statements.	Furniture of Rs.325,422 which was in a unusable condition was repaired and given to a rural school.	Sufficient disclosures should be done in the financial statements.

1.6 Non-compliance with the Laws, Rules, Regulations and Management Decisions

Reference to regulations etc.	Rules, Non compliance	Comments of management	Recommendation
(a) Mines and Minerals Act No.33 of 1992 ----- Mining order 33(4) amended by gazette No. 958 dated on 10 January 1997	No action had been taken to make timely revisions to the functions by making recommendations to the Secretary for a determined market value of the mining products, allowable deductions and a royalty payment arrangement.	Actions are doing to amend the regulations by now.	Actions should be done as per provisions of the Act.
(b) Section 6.2(c) of II part of the Gratuity Payment Act No. 12 of 1983 and the letter of 02/09/01/2018 dated on July 2018 of Secretary of Ministry of Mahaweli Development and Environment.	Although the gratuity is payable on the basis of ½ monthly salary as per the Act, as based on a full month's salary, 21 employees who resigned during the period 2016-2019 were overpaid by Rs. 8,352,114. Rs.159,753,034 had been provisioned for the payment of gratuity based on the full month's salary. Although the Director General of the Department of Public Enterprises had instructed on 10 May 2018 to recover the overpaid gratuity, that money had not been recovered.	The Bureau has acted in accordance with the Gratuity Act and, this has been confirmed by the Labor Department. As there is no overpayment accordingly, no charge is required. As discussed in the Committee on Public Enterprises, all the relevant approvals have been forwarded to the Treasury.	Actions should be taken to pay gratuity and to recover overpaid gratuity as per the provisions of the Act.
(c) Special gazette notification no. 772/22 dated on 24 June 1993 issued by the Minister of Environment as per Section 23V of National Environmental Act No.47 of 1980 amended by National Environmental Act No.56 of 1988. 24	Although minings should not be done on the surface of th Earth by exceeding 10 hectares of cumulative area at mining and mineral extraction. In contrary to that, the mining license no. IML/A/HO/1623 had been issued for mining mineral sands in an area of 18 hectares.	Under the Mines and Mineral Marterial Act No.33 of 1992 amended by the Act No. 66 of 2006, the licenses issuing order had been issued by the gazette no.772/22 dated on 26 November 1993. Lanka Mineral Sands Company has mined using machineries before issuing those Act and licenses. The grace period had been given for the licenseholders that were mining at that time to get licenses under industrial mining licenses before 26 April 1994. There was no any legal barrier	Action should be done as per gazette notification.

to issue licenses for minings that exceeding 10 hectares araa which prevailed more than 20 years at that time.

(d) Financial regulation of Democratic Socialist Republic of Sri Lanka

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| (i) Financial regulation 365(1) | Although advance should be given only for the approved payment in the due financial year, the value of unsettled advance balances that given for local purchases exceeding the time of 1 year to over 5 years, was Rs.7,608,105. | Rs.1,927,810 has been paid for the GPRS system. As this system is not completed, it was not taken as assets. The advance payment made to Ewis Solution (Pvt) Ltd is also shown in the advance account as the process has not been completed. Letters have been issued informing the relevant sections to settle the advance for other advances. | Actions should be done as per financial regulations |
| (ii) Financial Regulation 371(5) | Though advances given should not be delayed beyond 31 December in the financial year, the unsettled advance balances given for officers that exceeded the time of 1 year to over 5 years was Rs.6,329,943. | As stated by audit, an advance of Rs. 1,500,000 has been paid to each officer and, it was exceeding over 05 years. It was referred to take legal action in this regard. The advances given for officers for field visits were consisted of Rs.4,091 that prevailed from 1994 and 1996. Actions had been taken to remove those advances from books and, Rs.260,000 had been settled by now. It was informed that letters have been sent to relevant divisions to recover the amount of Rs.1,047,822. | Actions should be done as per financial regulations. |
| (iii) Finacial regulation 757(2) and 507 (3) | Board of Survey reports of fixed assets costed Rs.1,208,686,416 had not been submitted to Audit by completing relevant survey for the year under review. | The relevant reports had been submitted for the Audit by conducting surveys related to inventories prevailed in the Bureau as at 31 December 2019. | Actions should be done as per financial regulations |

(iv) Financial regulation 702(3)	Copies of the contract for the construction of the Earthquake and Tsunami Monitoring Center and Laboratory Building had not been submitted to the Auditor General.	The document (Contract agreement) containing 203 pages is in the procurement division in relation to this. Audit can examine that document.	Actions should be done as per financial regulations
(e) Section 31.11 and 31.15 of Chapter XLVII of Establishment Code of Democratic Socialist Republic of Sri Lanka	Although disciplinary inquiries have been initiated against an mining engineer who has been suspended since August 17, 2017 on criminal charges, the half pay of Rs.954,521 and incentives and bonuses of Rs.369,171 had been paid for the period of suspended. The officer was reinstated with effect from 15 August 2019 with the approval of the Board of Directors, without a disciplinary inquiry order.	One of the officers has been acquitted of all charges, a formal disciplinary inquiry into the other officer is still ongoing. Necessary arrangements have been made to recover the amount due to the Bureau from him.	Actions should be done as per circulars and to recover relevant money.
(f) Paragraph 6.5.3 of Public Enterprise circular No. PED/12 dated on 02 June 2003	The Annual Reports for the years 2017, 2018 and 2019 had not been tabled in Parliament as at June 30, 2020.	A meeting had been held on 28 June 2020 at he Ministry of Environment to get the recommendation of Minister to table annual reports of years 2017, 2018 and 2019 in the parliament and, actions will be taken to send after inform by the Ministry.	Actions should be done as per circulars
(g) Foreign exchange orders mentined in Special gazette No.2045/56 dated on 17 November 2017 and No. 1232/14 dated on 19 April 2002	Although the foreign stake from the total share ownership of a company that doing mining within Sri Lanka should be up to 40 per cent, if the ownership is exceeded that limit, the special approval of the Lanka Investment Board should be obtained. But, the 89.91 per cent of the total share ownership of the Bogal Graphite Company that doing graphite mining within Sri Lanka was owned to two foreign companies and, this company had not been obtained the approval from the Lanka investment Board or entered in to an investment	Under the Mining and Mineral Material Act No.33 of 1992 amended by Act No.66 of 2009, at present the royalty of the mined mineral for the ownership of the minerals was charged 06 per cent from sales value for the local sales and 7 per cent at the exportation. Though the royalty percentages have been amended by time to time and that percentages were not included in the licenses at the print, the charging of royalty had been done correctly. The relevant divisions were advised to not to do the	Actions should be done as per foreign exchange orders and, actions should be done to issue mining licenses to a company without approval or agreement with Lanka Investment

agreement with that Board. However, the Bureau had issued 02 graphite mining licenses to this company without considering that. omission occurred again. The Board. legal background is created to request for mineral exportation for a industrial mining licenseholder in A and B category in compliance with the above mentioned Act and regulations.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit of Rs. 773,685,180 as compared with the corresponding profit of Rs. 158,266,318 for the preceding year. It was observed a growth of Rs. 615,418,863 in the financial result. The failure to transfer the charged royalty to the Treasury in the year under review had been the main reason for this growth.

2.2 Analysis of the Trends in Major Income and Expenditure Subjects

Income	2020	2019	Percentage of increasing/ decreasing of Income	Observations
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	Rs.	Rs.	-	
Revenue	2,025,438,786	2,476,349,149	(18)	Decreasing in royalty and licenses income in the year under review due to Covid-19 pandemic
Other income	77,637,587	92,919,595	(16)	Decreasing in other income in mining section
<u>Expenditure</u>				
Operational expenses	650,901,098	1,960,220,410	(66)	Not transferring the royalty in the year under review to the Treasury

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of Management	Recommendation
(a) Issuing of mining licenses to Bogala Graphite Company by the Bureau	Issuing of mining licenses to Bogala Graphite Company by the Bureau	
<p>(i) As stated in the book “Sri Lankan Mineral Resources for Enriched Economy” published in 2018 as a publication of the Gem and Jewellery Research and Training Institute, it was mentioned that currently nano technology has introduced to Sri Lanka and infinite value can be given to graphite from this nano technology As mentioned there, 01 gram of graphine that made using nano technology is at a higher price of Rs.150,000 (1 Kg for Rs. 150 million) and, as exportation of the graphite mined by the company as raw material without converting into finished or semi-finished products status, huge amounts of income that should be received to Sri Lanka has been missed. By exporting 6,460.68 metric ton of graphite that mined in the period of 2017-2019 by the company, Rs.1,747.21 Million had been received as income. Accordingly, royalty fee</p>	<p>The mineral value is variated based on the carbon percentage in the graphite. Thus, carbon percentage is exported at the range of 80 - 90, 90 - 95, 95 – 99 per cent and, 95-99 per cent carbon percentage gets higher value out of them. 80-90 per cent carbon percentage gets lower value. Accordingly, based on the carbon percentage of the mineral exported, the market price is decided. The royalty of carbon is paid accordingly.</p> <p>The Lanka Nanotechnology Institute is currently conducting research on the processing of graphene. If graphene is produced using this nanotechnology in the future, the royalty that occurs in such a case will be calculated accoding to the prices.</p>	<p>Instead of exporting graphite as a raw material at very low cost, steps should be taken to manufacture and export finished or semi-finished products using nano technology.</p>

had been paid for the exportation of too low price of Rs.270 for 1 Kg of graphite as raw material without adding value and, there was a loss of 5555556 per cent between the export price and the raw material price.

(ii)	The Central Environmental Authority issues an environmental protection license to the relevant company for a period of one year and, it will be extended year by year. In addition to that, the recommendation of the Department of Archeology is given to Galigamuwa Divisional Secretary for the mining to relevant company on the basis of annual renewal and, the Division Secretary also presents his recommendation to the GSMB to extend the mining license by one year. Accordingly, though the mining license is renewed annually, as per request made by the company, the extension of the valid period of the license from 02 November 2018 to 01 November 2028 for 10 years has been controversial.	As the land belongs to Bogala Graphite Company is not a land owned by the Divisional Secretary. Obtaining the recommendation of the Divisional Secretary is not mandatory subject to the Act and Regulations of the Bureau. It was further informed that this Bogala graphite mine was old more than 100 years and that mine had been remained before the arrival of Mine and Mineral Act No.33 of 1992.	The validity period of mining licenses should not be extended for several years at the request of various agencies.
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- (b) As per the notice of Cabinet Ministers on 22 May 2017, actions had not been done to get approval by formulating National Policy on Mineral Resources by the audited date. At present the Bureau has formulated a National Policy on Mineral Resources and submitted it to the Ministry of Environment. Cabinet approval should be obtained for this formulated national policy.
- (c) No scientific methodology has been adopted to determine the extent of quarrying aggregate and the royalty was charged by considering the twice as much explosive used for aggregate was considered the size of the mined cube. The Bureau has now developed an acceptable methodology for analyzing the quantity of explosives used relative to the quantity actually used for mining and, Steps have been taken to calculate the royalty in that connection. A scientific methodology should be developed as soon as possible.
- (d) Sum of Rs.27,419,690 of royalty per Rs.26,876,200 and Rs.543,490 that should be received for soil cube 1,343,810 and sand cube 3397 respectively that used for Yanoya Reservoir Project, had not been charged from the company during the year under review. In this regard, the Bureau has sent several letters and reminders to the company with a copy to Department of Irrigation to pay the royalty arrears by now. As shown the audit, the relevant payment has not been made at this time. Action should be taken to recover these arrears immediately.
- (e) In terms of Section 28 (4) of the Mines and Minerals Act No. 33 of 1992, there was no licensing system for the transportation of aggregate products. Contrary to the relevant provision, the issuance of transport permits for the transportation of sand, soil and clay from 04 December 2019 to 16 March 2020 has been suspended as per Cabinet Decision No. 19 / Miscellaneous (064) dated 13 December 2019. Licenses are issued by the Bureau to regulate the volume of minnings and, compared to sand, granite can not be mined at large quantity, as it has been mined the quantity similar to the quantity mentioned in the license, it can not be predicted the sufficient monitoring from mining license. In accordance with the Mines and Minerals Act No. 33 of 1992, although transport permits must be obtained for granite, at present the Bureau does not issue transport permits for granite as the issuance of transport permits will adversely affect the selling price of the mineral and due to sufficient monitoring is done with the mining license and, There is no need for that. Arrangements have been made to obtain royalty at the time of issuance of transport A system for issuing transport permits for granite should be developed.

method was introduced to recover the royalty portion from the miners when abolishing transport licenses.

licenses to facilitate the administration of the Bureau. The point made here is incorrect, as the royalty will later recover for the period which the transport permit was not issued.

- (f) In terms of Section 2 (e) of the Mines and Minerals (Amendment) Act, the Bureau had not introduced the steps to be taken to add value to the minerals. As a result, mined graphite, mineral sands and quartus were being exported as raw material without adding value.
- Adding value to minerals is the process of changing the extraction of minerals from the ground. Accordingly, minerals mined from the ground do not come into the market in the same way. Mineral sand is extracted from beaches and separated into ilmenite, rutile, and zircon to add value. Also, ground graphite does not come into the market in the same way. The minerals are processed and the value added accordingly. The Bureau is therefore responsible for adding value beyond that. That is, to make these minerals at least semi-finished products. Discussions are underway with the relevant agencies in this regard.
- Necessary steps should be taken to export by adding value to the mined graphite, mineral sand and quartus.
- (g) During the period from 2014 to the year under review, the royalty income of Rs.8,488 million collected by the Bureau had not been credited to the Consolidated Fund
- According to the provisions of the Mines and Minerals Act No. 33 of 1992, the Bureau should cover the expenses with the income earned. Therefore, it is not legal to send all money from royalty to the Treasury. However, the Bureau sends the excess money to the Treasury annually. The royalty received from Colombo Port City Project which has been in operation since 2016 is also included in the annual royalty income of the Bureau. Accordingly, the money received from the Colombo Port City project was also considered as money sent to the Treasury and accounted as an adjustment. Accordingly, remittances have been made to the Consolidated Fund from 2016 to 2018.
- Royalty income should be credited to the Consolidated Fund.

3.2 Operational Inefficiencies

Audit Observation	Comments of Management	Recommendation
<p>(a) During the inspection carried out by the Director (Mine Safety) of the Bureau regarding 13 permits issued for land sand mining in the Hambantota District, it was observed that, the mined areas mentioned in all the licenses have been mined beyond the depth, the Bureau has received less royalty income, and since the bank guarantees charged for licenses are not sufficient, it should be increased. No action had been taken to date on this report. Further, sand mining areas mined under the licenses in Hambantota and Ratnapura districts had not been rehabilitated. The unprotected pits were filled with water. Due to the fact that more money was spent on rehabilitation than the guarantee obtained for the rehabilitation of the sand mined land, The audit observed that it had been abandoned without obtaining the guarantee and rehabilitating the land.</p>	<p>Relevant divisions have been instructed to take necessary steps to increase bank guarantees as stated in the audit. A system has been set up to obtain a bank guarantee for similar amount for the cost of rehabilitating the mined site. It is expected to implement in the near future. Relevant divisions have been informed to look into this matter and take necessary action.</p>	<p>Similar amount to the cost of rehabilitating the mined site should be charged as bank guarantee. Mined sites should be regularly inspected and rehabilitated by the minor.</p>
<p>(b) As per Section 33 of the Orders of the giving licenses for soil mines under Mines and Minerals Act No. 33 of 1992, the royalty income and fines of Rs.287,010 had not been recovered for 10,382 soil cubes that mined under 02 licenses given. 2,201 cubes of soil had been illegally excavated beyond the permit limit. Also, although 7 conditions and 2 terms of the agreement mentioned in the excavation permits had been violated, no action had been taken in that regard, but the relevant Rs. 60,000 bank guarantee had been released. According to the terms</p>	<p>Relevant divisions were informed to look into these matters mentioned in the audit and take necessary action.</p>	<p>Relevant arrears of royalty and fines should be recovered and, action should be taken to rehabilitate the mined sites. Action should be taken against the excavator for violating the mined conditions.</p>

of the license, Although sloped method should be maintained to prevent landslides, taking actions to prevent soil erosion, a 5m strip of land around the boundary of the land should be left without excavating, excavation should be carried out within the standard metric grid limit and the excavated land should be rehabilitated, those had not been done.

- (c) Land belonging to the Anuradhapura District Secretary without any formal acquisition used for the construction of regional office of the Bureau and had been spent Rs.3,914,563 and Rs.12,225,173 for the years 2014 and 2020 respectively.
- The Anuradhapura Regional Office of the Geological Survey and Mines Bureau was maintained for a long time in rented buildings. As it was essential to have space in the urban area to provide public services more efficiently and systematically, the District Secretary was requested for a space in that office by the Bureau. Due to the lack of such space, an agreement has been reached to establish an office there as the District Secretariat land is a government land.
- Against the background of paying rent of other Government Institutions in the premises of the District Secretariat, as it is economically advantageous for the Geological Survey and Mines Bureau to maintain their building on government land without paying rent, it was agreed for this. As this land is in the premises of the District Secretariat, no acquisition can be made.
- In the future, when constructing such buildings, and action should be taken to construct buildings by acquiring the land properly.

3.3 Procurement Management

Audit Observation	Comments of Management	Recommendation
(a) Without following a competitive procurement process in accordance with Procurement Guidelines 3.2 and without the approval of the Cabinet, it was assigned to the Sri Lanka Navy with the approval of the Board of	As it took high cost for maintaining the Anuradhapura Regional Office on rent basis, Management decided to expedite the construction of the second floor of the building which was in the premises of the District Secretariat belonging to the Bureau and to establish the Anuradhapura	Actions should be done with the provisions of the Procurement Guidelines.

Directors for the construction of the 2nd floor of the Anuradhapura Regional Office at a cost of Rs.11,545,178. Also, a consultant was appointed for the construction work without any procurement process and a sum of Rs. 579,995 was paid and, this Consultant was also appointed as the Chairman of the Technical Evaluation Committee appointed for this purpose, contrary to the provisions of Section 7.3.1 (b) of the Procurement Guidelines.

Regional Office. The contract was awarded to the Sri Lanka Navy with the approval of the Bureau of Directors, as the Sri Lanka Navy agreed to carry out the work as specified in the Engineering Estimates (excluding labor wages) and has the potential to complete the work expeditiously.

- (b) GPS Tracking System was installed for 51 vehicles at a cost of Rs. 408,000 and, the relevant estimates, approval, how the supplier was selected, the relevant contract agreement and the relevant payment files had not been submitted for audit.

Relevant files will be provided in the future.

Relevant files should be submitted to the audit as soon as possible.

3.4 Defects of Contract Administration

Audit Observation

Although the Earthquake and Tsunami Observation Center and a laboratory building were being constructed at a cost of Rs. 585,147,480 on the land at Pita Kotte, no action had been taken to take over the relevant land. Further, Cabinet approval had been obtained for only Rs. 383,193,671 for the construction of the contract. Cabinet approval had not been obtained for the total value of Rs.201,953,810 to be borne for the urgent needs and other expenses of the contract.

Comments of Management

As per the approval of the Cabinet No. 10/2859/527/001 dated 08 December 2011 with regard to the land established by the Geological Survey and Mines Bureau, the Bureau paid for the 205 perches of land located at 569, Epitamulla Road, Pitakotte on the concurrence to take over the name of the Bureau. The Management has approved the transfer of the entire 209 perch plot of land at Denzil Kobbekaduwa Mawatha, Battaramulla to the Ministry of Environment. A Cabinet Memorandum has also been submitted to take over the relevant land in the name of the Bureau and, As soon as the concurrence is obtained, the Land Commissioner will transfer the land on which the Bureau is currently located.

Recommendation

The legal transfer of the land to the Bureau should be expedited. Cabinet approval should be obtained to bear the expenses of Rs.201,953,810 to be borne for urgent needs and other expenses.

Although our request on transferring the relevant lands has been forwarded by the Ministry of Environment to the Cabinet, So far no legal transfer has been made by the Ministry. Although the total cost estimate was decided by the Procurement Committee and appointed for it, the value of the contract selected for awarding the contract has been approved by the Cabinet.

All the procurement activities including obtaining the approval of the Cabinet of Ministers for this tender were done through the Line Ministry. These activities have been carried out under the supervision of the Chief Accounting Officer. It was observed that only the relevant expenditure has been submitted to the Cabinet for approval.

4. Accountablity and Good Governance

4.1 Enviornmental Issues

Audit Observation

In accordance with the Section 52 (2) of the Mines and Minerals Act No. 33 of 1992 and Mining Order No. 21 (a) as amended by Gazette Notification No. 958 of 10 January 1997, Action should be taken to rehabilitate the lands after excavations. However, actions had not been done to get that work from 874 industrial mining licenseholders which had taken 2 months to 9 years. Although the value of Rs.156,275,430 of bank guarantees that obtained from above licenseholders had been cashed. The money was stated in the financial statements as a balance payable without being used for land rehabilitation.

Comments of Management

The land should be rehabilitated after excavation as per the Reconstruction Plan which has been issued under the Mining and Minerals Act No. 33 of 1992 as amended by Act No. 66 of 2009. An agreement will be signed on a bank guarantee as a bond. Bank guarantees of the licensee who does not carry out the rehabilitation work properly had been acquired by the Bureau. The Bureau will make the mined pits of licensees rehabilitated. Relevant bank guarantees will be released after rehabilitation. The Bureau has also set up a Mine Safety Division to regulate this.

Recommendation

Land rehabilitation work should be done soon.