

## **GSMB Technical Services (pvt) Limited - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of financial statements of the GSMB Technical Services (pvt) Limited (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then 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. 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022 and of its financial performance and its cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards for Small & Medium Sized Entities.

#### **1.2 Basis for the Qualified Opinion**

My opinion is qualified based on the 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 my 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 Accounting Standards for Small & Medium Size Entities, 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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

#### 1.4 Scope of Audit (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 Company'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 Company'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 Company 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 of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Accounting Defficiencies

Audit Issue	Management Comment	Recommendation
(a) Although the non-current assets of 785 items with cost of Rs.90,645,552 that were fully depreciated had been used continuously by the Company the useful life time and scrap value of the assets had not been revalued in order to present the fair value in the financial statements as per 17.19 of Srilanka Accounting Standard for Small and Medium sized Entities, .	As per the Accounting Standard the relevant asset class should be revalued in the assest revaluation,so these tasks have not been done considering the financial cost ,time and economic benefits of the revaluation.	Actions should be taken to show the fair value of the assets in the accounts in accordance with Accounting Standards.
(b) The net cash flow generated from operating activities was overstated by Rs.8,105,557 due to recording Rs.6,935,760 as cash inflow instead of recording the increase in other receivables by Rs.1,169,797 as a cash out flow in adjusting the changes in working capital in the cash flow statement.	The prepaid tax adjustment is made to adjust the changes in working capital, in the statement of cash flows, so it is recorded as a cash in flow.	The cash flow statement should be prepared showing the cash flows accurately.
(c) It was not possible to verify the accuracy of the value of the sand stock which was stated as Rs.16,738,596 during the audit due to the fact that physical verification of the sand stock held at the end of the reviewed year had not been done and the value was not accounted for. There the stock value of Rs.10,603,916 in Kanthale sand project at the end of last year was shown as the closing stock of the year under review. No adjustments were made to the accounts for the stock shortage of 3,658 cubes of sand in that project.	Each project will verify stock balance and send monthly reports to the accounts section.Thus the value of stock balance on 31 December 2022 has been calculated. In case of any significant change in the stock balances,the officer in-charge will be held responsible.	Stocks should be physically verified and accounted for by verifying the accuracy of stocks.Action should be taken against the officials responsible for stock shortage and accounts should be reconciled.

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| (d) | Due to the understatement of royalty expenditure by Rs.12,800,273 in the accounts in the year under review,the profit was overstated by the same amount.   | The number of cubes royalty paid and the number of mined cubes may vary. The reason for this difference is that the . mining licenses are issued in relation to the periods and the number of cubes related to the accounting year as minings for the accounts . | Based on the quantity mined royalty should be calculated accurately and accounted for.            |
| (e) | The total of Employees Provident Fund and Employees Trust Fund expenditure for the year under review was understated by Rs.284,229 in the accounts and the profit was overstated by the same amount. | EPF,ETF has been correctly paid during the year and correction of over provision made has resulted in reduction of EPF.ETF expenditure in the current year.  | Expenditure for the year under review should be accurately disclosed in the financial statements. |

## 1.6 Accounts Receivables and Payables

### 1.6.1 Accounts Receivables

<b>Audit Issue</b>	<b>Management Commentt</b>	<b>Recommendation</b>
(a) According to the financial statements of the Company,the balances payable by the company to the Geological Survey and Mines Bureau and the balances due to the company from the Bureau are Rs.44,351,804 and Rs.1,545,522 respectively,but according to the financial statements of the Bureau ,the balances due and payable by the Bureau are Rs.71,711,804 and Rs.9,142,975 .Accordingly,changes of Rs.27,360,000 and Rs.7,597,453 were observed respectively.	These balances will be settled in financial year 2023 and several balances have been settled in financial year 2022 as compared in previous year.	Necessary steps should be taken to settle the receivables and payables in the 2 entities.

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| (b) | In the trade receivable balance of Rs.39,097,154 the total for more than 5 years was 180 balance of Rs.15,897,962. No action had been taken to recover these balances even by the audited date 15 March 2023.   | Committee recommendations of these balances are expected.   | Necessary steps should be taken to recover the receivables.                                      |
| (c) | The Company's financial assets impairment policy for trade receivable balances was also followed in respect of the balance of Rs.6,686,025 due from the parent company of Geological Survey and Mines Bereau and the entire balance was provided as doubtful debt and the uncertainty of debt recovery was not confirmed. | The entity follow the same normal policy of provisioning doubtful debt for balances due from related parties.By 31 December 2022 the Bureau will proceed to remove balances that have not been confirmed in writing and payment rejected balances from accounts after written confirmation. | Provision should be made for doubtful debts after ascertaining the uncertainty of loan recovery. |

## 1.6.2 Accounts Payables

<b>Audit Issue</b>	<b>Management Commentt</b>	<b>Recommendation</b>
(a) A total of Rs.24,456,546 advances paid by 222 persons and institutions to the company to obtain various services during the period of 2010-2022 and in that there were 84 advances of Rs.3,326,538 over 05 years. These advances were not settled even the audited date of 15 March 2023.	It is expected to act on the advice of the internal audit committee and the Board of Directors in this regard.	Actions should be made to settle the advances received.
(b) Actions had not been taken to settle a refundable tender deposit balance of Rs.648,000 over 2 years.	Arrangements are being made to release all bid securities that exceed two years and can be released during this quarter.	Arrangements should be made for prompt settlement of the outstanding balances.

## 1.7 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations etc	Non-compliance	Management Comment	Recommendation
(a) Paragraph 11 of the Public Finance Circular No.01/2020 dated 28 August 2020.	No assets verification were conducted for the years 2020 and 2021.	At Present assets verification of the head office and all ongoing projects are being carried out and the report is being prepared.	Asset verification should be done as per provisions of the circulars.
(b) Paragraph 3.5 of the Public Enterprises Circular No.02/2013 dated 11 September 2013.	At the end of the year under review there was a gratuity payable of Rs.25,944,060 and actions had not been taken to deposit this amount in a separate account as per provisions of circulars.	Fixed deposits and savings accounts are maintained in several State Banks and there is no need to make a separate investment in this regard as the Company has a very few number of employees.	Gratuity payable should be deposit in a separate account as per provisions of the circulars
(c) Paragraph 03 and 05 of the Management Services Circular 01/2014 dated 06 January 2014.	Although the monthly cost of living allowance that can be given to the employees is Rs.7,800 ,but the company had paid Rs.8,800 each since 2015. Thus Rs.2,180,000 was paid more in the year under review and no action was taken to recover excess payments.	According to the approval given by the Board of Directors for the board paper submitted on 02 January 2015 by the Chief Executive Officer to the Board of Directors requesting an increase of the cost of living allowance by Rs.2,200 to establish a minimum salary of Rs.15,000 the cost of living allowances was increased by Rs.2,200 for the employees with effect from 01 January 2015.	Actions should be taken to pay the cost of living allowance as per provisions of the circulars.The additional payment should be recovered immediately.

## 2. Financial Review

### 2.1 Financial Results

The operating results of the year under review amounted to a profit of Rs. 72,708,801 and the corresponding profit in the preceding year amounted to Rs.11,509,597 . Therefore, an improvement amounting to Rs. 61,199,204 of the financial result was observed . Though total net income of mining projects, special projects and human resources assignments was decreased by Rs.25,607,718 ,the increase of the net income earned from the sand sales projects and geological projects by Rs.55,177,322 and Rs.25,933,730 respectively and the non operating income increased by Rs.18,486,258 are main reasons for this improvement.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comments	Recommendation
(a) The Project of Kanthale Sand Mining and River bank Conservation The following observations are made.		
(i) To remove the 103,128 cubes of sand deposited threatening to the protection Dam of the Mahaweli river in Suriyapura Grama Niladari division of Kanthale Divisional Secretariat had entrusted by Mahaweli Authority of Srilanka in year 2019 to the company. The agreement between the two parties was extended on several occasions and the agreement was last extended from 20 January 2022 to 19 July 2022.Accordingly, it was observed that according to the reports of the company this project which was stopped and restarted as of the date 10 February 2022,sand cubes of 46,306.04 had been removed and 9,839 sand cubes was excavated during the period from February –July 2022 and that quantity was sold during the review year.According to	The relevant joint committee met on 20 February 2023 at the Mahaweli office in Suriyapura Kanthale ,where it was observed that the figures of the Geological Survey and Mines Bureau and the joint farmer's organization are completely similar to the figures of the company and only the figures maintained by the Mahaweli Authority have contradictions Accordingly, although no final conclusion has been reached on the contradictions,it has been to proceed with the work of the project .	Necessary actions should be taken by examining the discrepancy of the sand quantity.

the records of the divisional office of Mahaweli Authority of Suriyapura Kanthale, 10,162.25 sand cubes were excavated during the period up to July 2022 and accordingly, it was observed a discrepancy of 323.25 cubes. It was decided in the progress meeting of the project held on 02 September 2022 at Srilanka Mahaweli Authority of Suriyapura Kanthale to submit a report examining the statistical discrepancy should be examined by a joint committee and a report should be submitted, but no action was taken accordingly.



- (ii) Company was planned to construct 03 groynes in Mahaweli river at a Rs.168,254,363 out of the rehabilitation money which was collected from the sand buyers under the above sand mining project. At the end of the year under review Rs.6,109,058 had paid to the farmer's organisations to construct these groynes and only one groyne has completed. The progress of the balance 02 groynes are 70 percent and 54 percent. The agreed period of the construction of these groynes were lapsed and it was estimated that further amount of Rs.29,807,352 and Rs.38,410,355 respectively needed to complete the said 02 groynes. It was observed that the dam of the Mahaweli river may be damaged during the flood situation as the work on these 02 groynes has not been completed.
- It is agreed with the progress of the construction of the groynes. The amount required to complete the remaining parts has been estimated approximately considering the current market conditions. Due to unavoidable reasons the project had to be halted midway due to unavoidable reasons, so it is failed to reach the necessary progress. Both reports recommended by the joint committee on 02.09.2022 have been submitted to Mahaweli Authority after informing the officers and contractual agencies in writing in this regard, but no approval has been given to start the project.
- Actions should be taken to achieve the objectives from the project. Necessary measures should be taken immediately to prevent possible damage to the dam in the event of floods.
- (iii) An idle expense of Rs.2,977,062 for salaries, allowances, rent, office expenses etc was incurred even this project was stopped from 10 July 2022 and without extended from 01 August 2022 to 31 December
- Efforts have been made to obtain approval to start the project at the earliest, since it is also needed of the entity to complete the project at the earliest, but no approval has been received so far. Therefore, it was difficult to make a definite decisions on reducing the initial cost of the project.
- A quick decision should be taken on whether to continue the project and proper planning and economy should be carried out while bearing the expenses.
- (b) Mining Project of Kotikambokka Quartz Deposit
- (i) Excavations of this project which was scheduled to be commenced in year 2017 had not yet commenced till the audited date of 15 March
- The delay in approval of the environmental report led to the delay in starting the project and it was obtained in October 2022. Further,
- Actions should be taken to start the project expeditiously.

2023, and an idle expenses of Rs.22,528,495 had been spent from year 2017 to 31 December 2022 for measurements, purchase of fixed assets and payment of employee salaries. Cabinet appointed procurement committee has not yet appointed by the Ministry of Environment and the committee has to determine the methodology and the price of the sales of quartz and give it to our entity.

- (ii) The weigh bridge which was purchased in March 2017 for the purpose of the said project at a cost of Rs.2.2 million had become an idle asset. In year 2019 for calibration of this asset Rs.105,000 was paid to a supplies company and that company was removed the electronic components of the weigh bridge. A watchman was deployed for the security of the weigh bridge and the cost will be stopped as soon as the work related to the removal of the bridge is completed. In 2019 an amount of Rs.105,000 was paid to the relevant company for the annual calibration but it was observed that the work of the project could not be carried out in that year as well. Arrangements should be made to obtain the electronic components of the weigh bridge from the company that purchased the weigh bridge.

(c) **Calcite Project**

The Company had signed a Memorandum of Understanding with Post Graduate Institute of Science University of Peradeniya to carry out a project aimed at excavating Calcite from the deposit in the Rajawaka reserve at Balangoda Divisional Secretariat of Rathnapura District, exporting by value -added and using it for the domestic market.

The following observations are made in this regard.

- (i) Out of the objectives of the project according to the project proposal dated 10 July 2020 prepared on behalf of the Company by the said Postgraduate Institute of Science, to complete a detailed geological map of the proposed excavation area, estimation of the quantity of minable calcite in the deposit and estimate the other mineral content of the The support of the Petrologists and Minerologists is essential for this geological study and the mapping the entity did not have persons with this scientific knowledge, so assistance was obtained from the Postgraduate Institute of the University of Peradeniya for this study. The support required for this study was provided by geologists and officers within the entity. The work that can be accomplished through institutional procedures should be accomplished as far as possible.

mine are the services provided by the Company to the clients and are in line with the mission and objectives of the Company. Therefore, while the company could carry out those functions to assign another institution was controversial during the audit.

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| <p>(ii) According to the estimate of the Postgraduate Institute of Science Rs.2,727,500 for geological mapping and determination of the amount of the calcite that can be excavated, Rs.1,275,000 for equipment use ,Rs.400,000 for payment to senior scientists/consultants,Rs.2,793,000 for research grants as the total cost was Rs 7,195,500. The company had spent Rs.3,349,106 on the project as on 31 December 2022. But the quantity of the calcite that could be mined had not been determined as of 25 January 2023.</p> | <p>A scientific study should be carried out to determine the amount of calcite present in the entire deposit. Due to the high cost of these explorations the total amount of calcite present in the deposit was not determined.</p>             | <p>An examination should be carried out incurring about the idle expenses.</p>                                     |
| <p>(iii) Though a request was made to the Divisional Secretary of Kaltota to obtain a land on a long-term lease to start a factory for Calcite related products, but the Divisional Secretariat did not give permission for the request as it is located within Rajawaka reserve which has been declared as a reserve.</p>   | <p>The Divisional Secretary of Kaltota has informed that further action will be taken to provide the required land for factory and the Department of the Commissioner General of Land has been informed about the activities related to it.</p> | <p>While planning projects, attention should be paid primarily to the infrastructure required for the project.</p> |
| <p>(iv) Approval of the Minister incharge of Environment and the Minister incharge of</p>  | <p>It is planned to obtain these approvals once the initial plan is completed.</p>  | <p>Approvals to be obtained in accordance with the</p>   |

Land was not obtained for this mining project interms of section 30(d) of the Mines and Minerals Act No.33 of 1992 as amended by the Mines and Minerals (Amendment)Act No 66 of 2009.

Act should be obtained.

- (v) The Company had later planned to use mineral waste containing Calcite that had been removed and piled up from the private Calcite mining projects operating in the area to carry out value-added products using Calcite. However, according to the information from the Geological Survey and Mines Bureau the number of private Calcite mining licences currently in Balangoda area is three. Accordingly, while planning the project, it was not determined who the suppliers were, what quantity could be supplied and whether the waste would be supplied to the company.
- The Company later plans to reuse the mineral, which has been discarded extensively as waste and use it as an environmental rehabilitation process. After the initial project proposal is made, if the use of this discarded mineral appears to be positive, then the suppliers will be selected and the quantity to be supplied will be determined or else the Company will decide to mine. Since the purpose of the Company implementing such a project is unclear, the project should be planned and executed properly.
- Since the purpose of the Company implementing such a project is unclear, the project should be planned and executed properly.
- (vi) In a letter dated 29 January 2021 send to the Ministry of Enviornment No GSMBTS/SP/CA/2021/04 stating that the University of Peradeniya has Patents for new products related to Calcite mineral and the University has agreed to share with the Company the technical knowledge required to carry out commercial new products in Srilanka using these findings. However, the Company had not checked the Patents. Furthermore, the National Intellectual Property Office had reported to the audit that the Postgraduate Institute Patents of PGIS can be verified only after signing a Non Disclosure Agreement (NDA) between PGIS and Geological Survey and Mines Bureau. At present, the preparation of this Non Disclosure Agreement (NDA) is being carried out in collaboration with PGIS and PGIS patents can be checked after signing the Non Disclosure Agreement.
- First of all, it should be confirmed that the University has Patents for value added products.

of Science of the University of Peradeniya had informed that there were six value-added products ,but only one product was licensed and the remaining 5 patent applications were rejected.

- (d) The loader machine worth Rs,8,883,520 belonging to the Manampitiya Sand Mining Project was lying idle since 16 July 2017 and the engine repair was carried out at a cost of Rs.840,517 without proper technical evaluation of the machine,but could not be used in 2019.In March 2022 the Board of Directors approved a repair from the supplier Company of the machine at a cost of Rs.3,592,620 after keeping the machine inactive for 4 years .However,the repairs were not carried out.
- With the approval of the Board of Directors ,this loader was brought to the Weliveriya repair yard of the agency in November 2022.The agency has informed that due to the economic crisis in the country and the time taken to import spare parts,it will take some time to provide the repair estimates. As soon as the estimates are received, they will be forwarded to the Board of Directors and approval will be obtained and the relavant repairs will be carried out and this loader will be used for project work.
- The machine should be repaired and utilized without delay.
- (e) In the year under review sand projects operating in Maduru Oya ,the Aralaganwila,Boaththa and Nidanwala were incurred loss of Rs.1,345,485,Rs.3,975,095, Rs.97,541 respectively and Rs.3,216,621 from the Muthur sand project.
- Due to the economic crisis and fuel crisis in the country during the year,the cost components of these projects increases and the sale price of sand in the projects also increased significantly, Further, due to the increase in distance from the areas where raw materials are needed to reach the projects,the number of lorries coming to collect sand also decreased rapidly.
- Steps should be taken by the management to resort to profitable measures as project losses adversely affect other projects as well.

### 3.2 Human Resources Management

Audit Observation	Management Comments	Recommendation
<p>According to the Cabinet Decision No.PF/PE/COM/31 dated 08 June 2001 which established the company, the staff of the company should be limited 5-6 including the Chief Executive Officer and other employees were to be obtained on contract basis. Accordingly ,164 number of employees were working on contract basis and none of the permanent employees were recruited until the date of audit.</p>	<p>The Board of Directors has approved to recruit 60 employees on a permanent basis with the approval of the Board of Directors as per the approved recruitment procedure of the entity and to take up the service by extending the contract period of the remaining employees currently serving. The Board of Directors of the Parent entity has approved the recruitment of suitable persons by inviting applications from internal and external applications for the recruitment of permanent staff and for the Posts of Senior Management. Accordingly, the relevant vacancy notices have been published in newspapers on 02.10.2022 and 03.10.2022 .Accordingly, the participating members representing the Ministry of Environment have not yet been nominated to the interview Board for recruitment to the respective posts.</p>	<p>Necessary steps should be taken to recruit the permanent staff.</p>