

Gem and Jewellery Research and Training Institute - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Gem and Jewellery Research and Training Institute as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

- (a) It was proposed to deduct the stocks amounting to Rs.648,000 which has to be recovered further with regard to a fraud of Gold and Silver committed by a senior manager engaged in the service of the Institute, from the closing stocks for the year under review and to show it as a provision by deducting from the stocks where as it had not been shown in the balance sheet as a balance stocks to be recovered further. Even though it was stated that it had been referred to the Attorney General for taking legal action against him, legal action had not been taken against him even up to 31 October 2013.
- (b) Even though a fixed deposit had been opened on 25 April 2012 by obtaining a sum of Rs.1,000,000 from the savings account of the Gratuity Fund, action had not been taken to debit it to the Gratuity Fund Investment Account and to credit it to the Gratuity Fund Savings Account.
- (c) Action had not been taken to bring 02 vehicles at the value of Rs.11,700,000 registered in the name of the Institute to the accounts under fixed assets.
- (d) Even though the cash outflow of the Employees Gratuity Fund during the year 2012 amounted to Rs.1,165,710, it had been shown in the cash flow statement as Rs.1,204,000.
- (e) Instead of showing the entire amount provided by the Canada World University Project Fund under the income, only the balance of Rs.350,288 out of the above amount, after deducting the expenditure relating to the courses had been brought to accounts as income from the courses.

1.2.2 Lack of Evidence for Audit

Aggregating Rs.6,165,408 relating to 3 items of revenue and one item of expenditure had not been accepted in audit due to non – rendition of course schedule, source of income and bills for transactions.

1.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

A sum of Rs.219,600 had been paid as lawyers' fees relating to a court case filed personally against the name of the former Chairman of the Institute contrary to Section 6 of Chapter xxxiii of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.

1.2.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) A sum of Rs.1,350,000 had been paid as rentals from 01 January 2012 to 05 October 2012 after completion of the agreement period of the building obtained on rental basis for the Training Centre, Colombo.
- (b) Payments for leave not availed by officers and employees of the Institute had been made for them from the inception of the Institute without proper approval of the Treasury and sums aggregating Rs.860,670 had been paid for leave not availed in the year 2011. Provisions amounting to Rs.944,039 had been made under creditors for the year 2012 relating to leave not availed during the previous years.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operation of the Institute for the year ended 31 December 2012 had resulted in a deficit of Rs.207,402 as against the surplus of Rs.383,079 for the preceding year thus, indicating a deterioration of Rs.590,481 in the financial results. The increase of personnel emoluments, contractual services, expenditure on training programmes and other operating expenditure by Rs.2,849,300, Rs.1,506,700, Rs.612,100 and Rs.326,500 respectively had mainly attributed for arising deterioration.

2.2 Analytical Financial Review

The total income for the year under review was Rs.35,336,600 which has comprised the Government Grants for recurrent expenditure of Rs.29,628,500 and the course income of Rs.5,227,900 whereas the course income had represented 14.79 per cent of the total income. The total expenditure for operating activities amounted to Rs.35,379,400. Other income including the course income had remained at a lower level as a result it was not sufficient to cover the expenditure incurred for operating activities.

2.3 Legal Proceedings Initiated against the Institute

The following observations are made.

- (a) Two court cases were filed against the Institute requesting compensation of Rs.5,200,000 by an employee engaged in the service of the Institute for dismissing him from the service and by an owner of a building for not handing over of building obtained on rental basis within the specified date.
- (b) Two court cases had been filed at the Labour Tribunal against the Institute by two employees engaged in the service of the Institute based on the matters such as retirement from the service due to not reporting duty without notice.

3. Operating Review

3.1 Performance

The following observations are made.

- (a) In terms of Action Plan for the year 2012, two sums of Rs.270,000 and Rs.100,000 respectively had been provided for 3 staff training programmes and for purchase of magazines. However, those programmes had not been implemented.
- (b) It was targeted to implement three development programmes by the Training Division and a sum of Rs.100,000 had been provided in this regard. Of those programmes, the establishment of a Training Centre for “Gem Carving” Training Course and functions relating to the development activities of the subjects concerned had not been implemented.
- (c) Provision of Rs.900,000 had been made during the year under review to conduct conferences and exhibitions. According to the progress report presented, a sum of

Rs.348,510 had been spent for 04 exhibitions. Even though there were savings of provisions relating to 04 exhibitions including one village level exhibition for which invitation was received, the Institute had not participated there in.

- (d) According to the Action Plan for the year 2012, provision of Rs.900,000 had been made for preparing video programmes relating to functions of the Institute. Procurement activities of the specified functions only had been carried out up to the end of the year under review by spending Rs.29,230.
- (e) Out of six courses conducted during the year 2012, number of students completed their courses as specified was 243 and number of students registered for those courses was 337. The participation for courses such as jewellery manufacturing, creation of designs and gem cutting and polishing in 02 Centres of Kandy and Buttala had decreased as compared with the preceding year.
- (f) According to the Action Plan, sums aggregating Rs.1,350,000 consisting of Rs.900,000 and Rs.450,000 respectively had been allocated to carry out research on existence of gold deposits at the nearby areas of Walawa Ganga and Kalu Ganga and for the project of mining gem with environment friendly manner. Out of these, a sum of Rs.58,650 had been spent and this project had been stopped in halfway by the month of March 2012 and approval had been granted at the staff meeting to recommence it from the month of September. The progress of these projects had not been reported up to the date of audit in the month of May 2013.
- (g) According to the Action Plan, a sum of Rs.900,000 had been allocated for the purpose of collection of 50 samples of various type of Geuda and analysing the composition of chemicals therein and to prepare final report by identifying heat level of 06 samples. Accordingly, 36 samples had been collected and heat level of 02 samples had been identified. Even though a sum of Rs.43,200 had been spent thereon, the expected targets had not been achieved.

3.2 Management Inefficiencies

Two thousand and four hundred copies of annual reports for the years 2009 and 2010 had been printed by spending Rs.188,700 without obtaining approval of the Cabinet of Ministers and those reports had remained at the Institute up to the month of August 2013 without distributing them.

3.3 Matters of Contentious Nature

Security services had been obtained from a private security service and action had not been taken up to the month of February 2013 to renew the agreement entered into with that Institute on 04 October 2005. Even though it was agreed to obtain the services of two senior

security officers in terms of agreement, while making payment, a sum of Rs.222,000 had been paid during the year under review outside the agreement at the rate of Rs.18,500 per month to an officer having the post of Special Senior Security Guard.

3.4 Apparent Irregularities

A person had been appointed on contract basis for the post of Specialist Consultant of the Gem Deposit Exploration and Assessment Projection full time basis. In terms of paragraph 03 of the above mentioned appointment letter, Ratnapura is the service station and it was pointed out that the service station will be subjected to changes as per circumstances. The Institute had not possessed information up to the time of audit inspection in the month of June 2013 about the reporting for duty by the relevant Consultant. However, it was ensured at the examination of running charts of the Institute that he had engaged in the project activities only for 9 days during the year 2012. Further, in terms of paragraph 05 of his appointment letter, it was pointed out to pay a consultancy allowance of Rs.85,000 per month and to provide transport facilities from residence for duties and a sum of Rs.849,750 had been paid as allowances during the year 2012 (except for the month of September). However, it was revealed that he is a permanent senior lecturer of the University of Moratuwa. Accordingly, working in two Government institutions on full time basis and obtaining benefit by the Institute through the allowances paid to him were problematic in audit.

3.5 Idle and Underutilised Assets

The following observations are made.

- (a) Training courses were being conducted at 06 training centres established within the Island. Thirteen training centres established at various areas of the Island were closed during the period from the year 2006 to year 2011 on the basis of not obtaining provision.
- (b) An earth drilling machine had been purchased in the year 2007 at a cost of Rs.12,309,013 whereas a sum of Rs.67,676 had been spent during the year under review to repair and service it. Similarly, sums aggregating Rs.410,115 had been spent from the year 2009 to the year 2012 for obtaining insurance coverage relating to that machine. That machine had not been utilised even up to the end of the year under review.
- (c) A set of loud speakers had been purchased on 07 August 2012 for office necessities by spending Rs.25,500 and it had remained idle at the Institute even up to 05 February 2013 without utilising it.

3.6 Delayed Projects

Deficiencies in the Implementation of Gem Deposit Exploration and Assessment Project

The following observations are made.

- (a) Even though the approval of the General Treasury had been received in order to implement the Gem Deposit Exploration and Assessment Project within four year period from the year 2008 to year 2011, it was unable to complete the project activities within the specified period. After obtaining approval for granting funds at the rate of Rs.9 million per year from the provision of 36 million proposed to provide for the relevant activities, a sum of Rs.9,588,630 had been spent for the above project from the year 2007 to year 2012.
- (b) The total expenditure of this project during the year under review was Rs.3,517,442 whereas any operating activities had not been carried out relating to the project during the months of January, August and September. A less amount of Rs.151,901 representing 4.3 percent of the total project expenditure had been spent directly for project survey activities.
- (c) Even though the objective of the Project is to carry out activities relating to exploration of gem deposit in 8 provinces of the Island within the four years period, the exploration activities were being carried out only in the Moneragala District of the Uva Province up to the date of 31 December 2012. Out of the provision made for this Project, only 26.63 per cent had been spent.

3.7 Vehicle Utilisation

The following observations are made.

- (a) A cab vehicle purchased on 06 March 2009 for Rs.5,925,000 had been sent to the relevant agent and other garages from 24 September 2010 to 28 November 2012 and sums aggregating Rs.1,077,058 had been spent in this regard. Recommendation of the Technical Officer had not been obtained for sums aggregating Rs.355,739 spent in 05 instances.
- (b) According to the decision taken at the meeting of the Board of Directors on August 2011, it was decided to auction the vehicle as per recommendation of the Technical Officer of the Ministry due to increase of repairs and maintenance expenditure of the above vehicle. However, a sum of Rs.721,323 had been spent for repairs without doing so even after that date.

3.8 Personnel Administration

There were 83 vacancies as compared with the approved cadre of 133 as at 31 December 2012 and there were vacancies of 69 per cent, 64 per cent and 50 per cent respectively in the posts of staff grade, non-staff grade and minor employees.

4. Accountability and Good Governance

4.1 Corporate Plan 2012 – 2016

Even though the up dated copies of the Corporate Plan approved by the Board of Directors should have been submitted to the relevant institute at least 15 days prior to the commencement of the financial year in terms of Section 5.1.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Corporate Plan had been approved and sent to the relevant institutes after 06 months of the commencement of the financial year.

4.2 Internal Audit

Approval had been obtained for recruitment to the post of Internal Audit Officer through the letter No.DMS/E/2/33/7/213/3 dated 09 June 2011 of the Department of Management Services. Accordingly, the above recruitment had been made on 01 October 2012. However, sufficient staff had not been attached for internal audit.

4.3 Budgetary Control

There were considerable variances at the range from 34 per cent to 100 per cent between the estimated and actual income and expenditure thus indicating that budget had not been made use of as an effective instrument of management control.

4.4 Annual Report

Even though the Annual Report should have been tabled in Parliament before exceeding 10 months after end of the financial year in terms of Section 4.3 of the Finance Act No.38 of 1971, action had not been taken even up to 27 June 2013 for tabling the Annual Reports for the years 2009, 2010 and 2011 in Parliament.

4.5 Observations on unresolved Audit Queries

Even though it was informed through parliamentary publications No.119 of 2011 relating to the decision taken at the Committee on Public Enterprises on 08 April 2011, salaries overpaid

to the officers with regard to improper increase of salaries of the Institute had not been recovered or had not been placed again at the existing salary scale.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were reported to the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of controls.

- (a) Implementation of the Project
- (b) Accounting
- (c) Control over Assets
- (d) Budgetary Control