

**National Gem and Jewellery Authority - 2011**  
-----

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 National Gem and Jewellery Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2. Comments on Financial Statements  
-----

1.2.1 Sri Lanka Accounting Standards  
-----

The following non- compliances were observed.

(a) Sri Lanka Accounting Standard No.3  
-----

Taking in to revenue of non – refunded security deposit valued at Rs. 3,710,000 had not been disclosed in the accounts.

(b) Sri Lanka Accounting Standard No.18  
-----

Exhibition gem stock of gem belongings to the Authority had not been revalued and brought to account since the year 1996.

1.2.2 Accounting Deficiencies  
-----

The following deficiencies were observed.

- (a) A sum of Rs. 1,956,330 had been shown as accrued publicity expenses for 2010 Jewells exhibition in the final accounts for the year 2010 presented and a sum of Rs. 5,306,502 had been incurred in the year 2011 as publicity expenses of the exhibition. As such the profit for the year under review had been understated by Rs. 3,350,172.
- (b) A sum of Rs. 1,400,000 had been collected from outside persons for the repair of kuruwita Halpe road. It had been credited to gemming security deposit. Even though this amount had been sent to the Provincial Road Ministry for road repairs, it had been eliminated from the relevant deposit account. As such the deposit account and the project expenditure account had been overstated by Rs. 1,400,000.
- (c) Income of Reword Fund amounting to Rs. 5,082,600 had been brought to accounts as baco income.
- (d) The Nation Building Tax amounting to Rs. 67,924 which was collected from rent receivable from shop owners located at World Trade Centre had been credited to Nation Building Expenditure Account.
- (e) Under provision of Rs. 1,355,125 in the year 2010 on local exhibition expenses had not been adjusted to the accounts.

1.2.3 Unreconciled control Accounts  
-----

According to the final accounts, the balances in Textiles Loan Account and the Festival Advance Accounts are amounted to Rs. 396,167 and Rs. 107,982 respectively, nevertheless, the balances as per schedule amounted to Rs. 327,667 and Rs. 176,482 respectively. Accordingly the differences are amounted to Rs. 68,500 and Rs. 68,500 respectively.

1.2.4 Unexplained Differences

-----

The following differences were observed.

Division	Subject	Balance as per Ledger	Balance as per the Records of Relevant Section	Difference
-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.
Statistics	Income of Assay Division	2,662,865	2,532,672	130,193
Statistics	Gem testing income	3,193,075	3,140,983	52,092
Ratnapur a Gem Transit Centre	Outstanding rent income	2,789,500	3,304,500	515,000

1.2.5 Accounts Receivable and payable

-----

The following matters were observed.

- (a) Five creditor balances totalling Rs. 3,407,494 had remained outstanding for more than five years and action had not been taken to recover them.
- (b) The sundry debtor balance had included a balance of Rs. 33,844 and a balance of Rs. 401,595 remained for more than 5 years and 3 to 4 years respectively and no action had been taken to settle them.

- (c) The debtor balance had included the value of 31 cheques totalling Rs. 314,554 and it included 13 cheques valued at Rs. 103,552 remained outstanding for 3 to 8 years and they had not been settled.
- (d) A sum of Rs. 9,786,537 receivable from the Gem and Jewellery Research and Training Institute had included a sum of Rs. 6,756,089 remained for more than 5 years and the balance remained for 2 to 5 years amounted to Rs. 3,030,448.
- (e) The special advance balance included in the debtor balance of Rs. 478,044 had included a balance of Rs. 31,550 and Rs. 139,401 remained outstanding for 3 to 4 years and 2 to 3 years respectively.
- (f) A sum of Rs. 1,404,560 receivable from trade stalls rented out at the world Trade Centre for the period 2008 to 2010 were recoverable from the sub lent persons.
- (g) The amount receivable from seven trade stalls at Ratnapura Gem Transit Centre had been Rs. 1,542,500

1.2.6 Non – compliance with Laws, Rules, Regulations and Management Decisions

-----  
 The following instances of non – compliance were observed.

Reference to Laws, rules, etc.	Non Compliance
--------------------------------	----------------

-----	-----
-------	-------

(a) Instances where action had not been taken in accordance with Government Procurement Guidelines

- |  |  |
|--|--|
| (i) Signings a formal contract agreement as per paragraph 8.9.1(b) | (a) Even though a sum of Rs. 500,000 had been given to the Department of Agrarian Services for reconstruction activities to avoid seapase of sediment to paddy fields as a result of mining in the Paradaiswatta Premises (SLBC part), a |
|--|--|

formal agreement had not been entered. According to the reply sent by the Chairman on 12 June 2012. It was stated that as an agreement had been signed with (Govi Sanvidhana) Farmer Organizations in respect of reconstruction activities an agreement with the Authority could not be signed as informed by the Department of Agrarian Services.

- (b) The estimated expenditure for closing mines in the land stated in (a) above making sediment filtering systems, making gravel road leads to houses situated round the land amounted to Rs. 1,408,000 but no agreement had been entered in to with the Department of Agrarian Services for this purpose.

(ii) payment of a maximum advance of 20% advance as per Paragraph 5.4.4

A sum of Rs. 277,500 as an advance of 50% had been paid to the Sri Lanka Institute of Development Administration on 4 April 2011 to improve the computer document authorization system.

(iii) Paragraph 4.3

A total cost estimate had not been prepared in repairing and reconstructing toilet system and water leakage from the ground flow to the second flow of the Authority. According to the reply of Chairman on 14 June 2011 it was stated that it had to be repaired quickly and as

such it had been done by calling for quotations from few registered construction companies without being prepared a total cost estimate.

- (b) The report issued by the Department of Management Services on 31 August 2000 on policies and procedures of the right of gemming.

paragraph 6.5

Even though it was stated that the total auction income on crown lands should own by the Authority a provision of Rs. 872,606 had been made for the payment to the Central Province Land Commissioner's Department for the Welgahawadiya crown land at Hasalaka. Even though requests had been made in several instances to release this land for auctioning as unauthorized gemming is carried out these lands, it was rejected by that institution by imposing various conditions. Hence the Chairman informed that it was agreed to pay a percentage of income to that institution in order to minimize environmental pollution by unauthorized gemming and to get an income to the government land auctioned the land after being released.

(c) Public Enterprises Circular  
No. PED/12 of 02 June  
2003  
Paragraph 5

Actual and reachable objectives should be included in the corporate plan for the year 2009 to 2013 and provision to achieve those objectives should be made in the Budget. Nevertheless there were instances where the Budget of the authority did not cover the objectives stated in the Action Plan. some such instances are given below Accordingly it was observed that objectives and aims in the action plan were not at a level of achieving actually  
Eg:

- (i) Formulation of a national plan in the gem and Jewellery industry.
- (ii) Improving its results by a census.
- (iii) Set up a special task force to raid illegal gemming.
- (iv) Purchase of spectrometers to improve the quality of certificates issued after being tested gems.

## 2. Financial Review

-----

### 2.1 Financial Results

-----

According to the financial statements presented by the Authority for the year ended 31 December 2011 had resulted in a pre-tax net profit of Rs. 8,177,976 as against the pre-tax net loss of Rs. 32,966,486 for the preceding year. Increase in land auction income by Rs. 11,331,900 decrease the establishment expenses and promotion expenses by Rs.

11,374,973 and by Rs. 23,577,186 respectively had been the main reasons for increase in the surplus.

## 2.2 Analytical financial Review

-----

According to the information included in the financial statements the profitability of the Authority for the year under review and the previous 4 years are as follows.

	2007	2008	2009	2010	2011
	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.
Income	215,730,616	258,179,893	220,671,589	228,963,191	249,179,325
Expenditure	232,277,006	228,772,163	233,705,664	261,929,677	241,001,350
pre tax profit/	-----	-----	-----	-----	-----
(Loss)	(16,546,390)	29,407,730	(13,034,075)	(32,966,486)	8,177,975
	=====	=====	=====	=====	=====

Accordingly it was observed that the profitability of the Authority had considerably fluctuated in the previous several years.

## 3. Operating Review

-----

The following matters were observed.

### (a) Auctioning Gem Lands

-----

Even though it was expected from the Budget for the year 2011 to earn an income of Rs. 65,500,000 from auctioning land of the government and lands belongs to the Land Reform Commission, the actual income earned was Rs. 28,837,872. Accordingly, the achievement of the expected targets had been at a low level of 44%.

(b) Export of Gem and Jewellery

The following matters were observed.

- (i) The Authority Participates in the foreign exhibitions for overseas promotion of Gem and Jewellery field and the Authority Spends money annually on that and for the foreign publicity through Gem and Jewellery Association. A test examination observed that all Gem and Jewellery certified and sent for sale by the Authority Valued at Rs. 26,601,128 had been returned unsold in 7 instances.
- (ii) Promotion expenses in the year under review and the four previous years and the expenses on foreign exhibitions included therein are as follows.

Year	Promotion Expenses	Foreign Exhibition Expenses	As a Percentage
	RS.Mn	Rs.Mn	
2007	38.130	15.705	41.18%
2008	34.776	14.366	41.31%
2009	33.264	13.385	40.23%
2010	49.028	1.406	2.86%
2011	25.451	8.355	32.82%

- (iii) It was not established in audit that reasons for returning all the exported stock and whether appropriate results can be ascertained from this money spent annually on foreign promotion.

(c) Division of Determination of Quantity of Gold

The following matters were observed.

- (i) Gem research income of the year 2011 as per final accounts amounted to Rs. 3,295,575 and the total expenditure, comprising the personnel cost of

Rs. 4,353,322 and depreciation of Rs. 787,369 amounted to Rs. 5,140,691. Accordingly the expenditure over Gem research income amounted to Rs. 1,845,116 or 56 per cent.

- (ii) Jewellery testing income of the year 2011 amounted to Rs. 1,523,158 and the personnel cost and depreciation amounted to Rs. 3,491,797 and Rs. 1,224,403 respectively. Accordingly the expenditure over income amounted to Rs. 3,193,042 or 209 per cent.

The progress of issuing certificates in the years 2010 and 2011 had decreased approximately by 3 per cent.

- (d) Export of Geuda  
-----

The even though aim of the Authority is to reduce the geuda export to zero, the geuda export had been increased by 26.74% and 36.21% in 2010 and 2011 respectively, as compared with that of 2009. The Chairman informed me that action is being taken to pay more attention on the value added exports, to reduce geuda exports.

- (e) Gem Mining by Using Machines  
-----

The following matters were observed.

- (i) A test check revealed that the Authority had given authority to mining in excess of the extent of Land approved for mining by the Land Reforms Commission in 5 instances.

The Land Reforms Commission recommends to remove mineral within a limited area This authority is given in subsequent years and this extent is not the extent which has been approved before. Accordingly the Chairman replied that the Authority had given the authority to a total of several years mineral rights for Gem mining.

File No.	Extent to which LRC is given Authority	Extent to which Authority is Allowed.
		sq.ft
17/2/1/3/71769	15 perches (4005 sq. ft)	9,888
17/2/1/3/65898	01 perches (267 Sq.ft)	1,000
17/2/1/1/3/66971	01 perches (267 sq.ft)	15,000
17/2/1/1/3/63245	20 Perches (5340 sq.ft)	12,213
17/2/1/3/72500	Within 20 perches (267 sq.ft)	16,408

- (ii) In the examination of file 5/41/p/59380, the following matters were observed.

At the field inspection carried out by the Operation Officers on 14 September 2007 it was reported in digging a mine to the extent of 12,000 sq ft. and damaging the drain, In terms of Circler No. 121(3) recovery of a settlement charges of Rs. 660,000 and closing the mine or recovering semites should be done but only a settlement charge of Rs. 10,000 had been recovered.

- (iii) In terminating settlement charges Limits have been imposed in Section 52 of the Gem and Jewellery Authority Act No. 50 of 1993, and the Authority has the power to issue and adopt rules and regulations. Nevertheless it was observed at a test examination carried out in respect of Gem mining that the Authority should take action to improve the Gem industry in considering the current issues of the Industry, irrespective of rules and regulations older than 17 years.

(iv) Settlements are made in respect of breach of conditions in the license, illegal excavations of mines etc. on the basis of a Circular of the Authority which is older than 5 years. Due to the simplicity of conditions of settlement, those faults are repeatedly done and as a result, it was observed that environmental pollution is occurred at a grand scale. The Chairman had replied stating that a special unit has been set up now in this regard.

(f) Foreign Trade Exhibitions

-----

(i) In terms of Section 14 (1)(d) of the Gem and Jewellery Authority Act No. 50 of 1993 action should be taken for the utilization of Gem and Jewellery market within Sri Lanka or outside and promotion of demand for Gem and Jewellery to the world market. Nevertheless it had been limited to few countries and as such this objective had not been achieved. Holding foreign exhibitions by the authority during the years 2009, 2010 and 2011 are as follows.

Country	<u>No. of Exhibitions held</u>		
	2011	2010	2009
-----	-----	-----	-----
China	5	4	3
Singapore	1	1	1
India	-	-	1
Japan	-	-	1
America	-	-	1
	----	----	---
Total	6	5	7
	==	==	==

(ii) According to the action plan, 12 foreign exhibitions had been planned to be held during the year under review but only 6 had been held.

- (iii) A sum of Rs. 29,576,767 had been spent for holding 6 foreign exhibitions during the year under review but only a sum of Rs. 20,204,861 had been collected from participants.

### 3.2 Management Inefficiencies

-----

The following matters were observed.

- (a) Out of a sum of Rs. 99,545,573 recovered from exports during the period 2001 to 2005, a fund to set up a quality laboratory had been created. Of this fund, a sum of Rs. 7,046,995 had been paid to an American Gem Trading Company which had agreed to provide facilities to issue quality certificates, but there was no benefit whatsoever to the Authority. No action had been taken to put up the laboratory up to April 2009 and the balance of that fund amounting to 92,498,578 had been given to a private institution in April 2009 with the approval of the Cabinet of Ministers for this purpose. The balance of that fund as at 31 March 2011 amounted to Rs. 102,970,217 and a sum of Rs. 621,609 had been spent out of this fund to incur audit fees and sundry expenses. No any action whatsoever had been taken to set up the laboratory and an audited accounts report as at 31 March 2011 had not been presented to audit as well.

- (b) Gem Mining Welfare Fund

-----

A person who obtained a formal license should sell or auction license of the Authority to give tax concession to all those who engage in mine industry. An amount equivalent to one per cent of the total income received out of it should be credited to the fund of the Authority established for the benefit of all who engage in gem industry. Accordingly the amount so collected from 1999 to 2008 had been credited to the Gem Mining Welfare Fund and the balance of that fund as at 31 December 2011 amounted to Rs. 27,356,498. Crediting money to this fund had been suspended since 2008 and it was not observed in audit that this fund had been utilized for the benefit of persons who engage in gem industry up to now.

(c) Jewellery Development Fund

-----

A Jewellery Development Fund had been established from money collected from Jewellery traders since 2008 for the development of people who engage in Jewellery industry. The balance to the credit of that fund as at 31 December 2011 amounted to Rs. 17,420,083 but it was not observed in audit that this fund had been utilized for the development of the industry during the year under review.

(d) Vehicle utilization

-----

GPRS/ GPS vehicle tracking system had been fixed to the 7 vehicles at a cost of Rs. 26,000 per each vehicle and they had been removed subsequently due to non-activation as per various structures of tanks. It was observed in audit that this had happened as the technical evaluation committee had not paid attention of those practical situations in making its decisions.

3.3 Idle and under-utilized assets

-----

The following matters were observed.

(a) Expenditure of Rs. 1,500,441 had been incurred in respect to Menikpura construction works during the period from 2001 to 2005 shown as works in progress under fixed assets. No any effective improvement in this connection had been done during the past 7 years and the construction work of it had been abandoned present.

(b) The following equipment available for gem stone testing in the Ratnapura Regional office laboratory had become inoperative since several years.

(i) Ultraviolet Machine

(ii) Spectroscope Machine

(iii) Fribolic Machine

- (c) A balance of Rs. 37,119.25 in the account of Sampath Bank maintains for payments made via internet had been dormant since the year 2007.

### 3.4 Uneconomic Transactions

-----

The following observations are made.

- (a) The publicity expenditure incurred for the 2010 Jewels exhibition amounted to Rs. 5,495,823 representing approximately 20 per cent of the total exhibition expenses. A sum of Rs. 5,710,333 had been received from sale of tickets, trade stalls and the construction of Geological Survey and Mines Bureau and the net expenditure amounted to Rs. 22,086,972. In considering the operation of the Authority financial position and available resources. local and foreign participants in this exhibition which had been held for the promotion of this field by incurring such an exorbitant expenditure had been at a low level of 26% from the expectation.
- (b) An excess balance of Rs. 4,862,759 had been maintained in the Regional offices bank accounts in excess of the maximum limits of Bank balances determined to be kept.

### 3.5 Identified Losses

-----

A sum of Rs. 11,760 for the re-connection of disconnected water supply due to non – payment of water bills of Belideniya building on due dates and sum of Rs. 2,440 as warrant charges in the payment of rates for the years 2008 and 2009 to the Colombo Municipal Council had been paid.

### 3.6 Resources given to the other Government Institutions

-----

Contrary to the paragraph 3.8.9 of Circular No. PED/12 dated 02 June 2003 of the Treasury a sum of Rs. 592,958 for 3 officers who were recruited by the Authority on contract and casual basis and a sum of Rs. 337,069 for 2 motor vehicles had been incurred on behalf of the Ministry.

3.7 Personnel Administration  
-----

The following observations are made.

- (a) In comparing the approved cadre of the Authority with the permanent cadre and the recruited cadre it was revealed that there were vacancies.

Type -----	<u>As at 31 December 2011</u>		
	Approved Cadre -----	Actual Cadre -----	No. of Vacancies -----
Staff	51	36	15
Non-Staff	169	91	78
Minor Staff	52	40	12
Contract	-	60	-
Casual	-	11	-
	----	---	----
Total	272	238	105
	====	====	====

- (b) The maximum period of an acting post is 3 month, in terms of paragraph 9.3.1(vi) and 9.10 of Public Administration Circular No.12 of 02 June 2003. Nevertheless action had not been taken to fill or to suppress the vacant posts which were in acting or covering – up duties position for a long period.
- (c) A sum of Rs. 422,305 had been paid during the year 2011 to 7 officers in respect of acting or covering up duties in Staff posts of the Authority.
- (d) In terms letter No. NSCC/2/43/CB1 dated 09 November 2006 of the National Salaries and Cadre Commission, the existing scheme of recruitment and promotions should be revised to give the benefit or new salary structure to the employees. Never the less the Authority had not got the recruitment procedure approved.

- (e) The two approved posts of Deputy Senior Valuer/ Gemologist (ii) had been vacant since inception of the Authority. Even though the two posts of Valuer/ Gemologists (geuda) had been approved they have been in vacant position since 13 June 2006.
- (f) The Chief Internal Auditor post had been vacant since 14 February 2011 but action had not been taken to recruit it even by April 2012.

#### 4. Accountability and Good Governance

-----

##### 4.1 Corporate Plan

-----

The following matters were observed.

- (a) Activities not implemented in accordance with Action Plan for the year 2011 are given below.
  - (i) Formulation of a national policy on gem and jewellery industry.
  - (ii) Carrying out a census on the Gem and Jewellery industry. As these activities which had been included in the Action Plan for the year 2006 had not been performed these had been included in the Corporate plan for the period 2009-2013 and action plan for the year 2011 but census had been conducted only in two Districts by 31 December 2011
  - (iii) Establishment of a Gem show room in the National Museum.
  - (iv) Ascertainment of FTIR equipment to upgrade the quality certificate issued after being tested the gems.
  - (v) Establishment of alloy testing and sealing (Hallmarking facility) in the Galle and Kandy branches to ensure the legal validity of jewellery products.
  - (vi) Open a data file under staff training. The Chairman replied that initial steps had been taken to open a data fill in the year 2012.
- (b) Objectives which can be achieved should be included in the Corporate Plan and the budgetary provision should be made to achieve those objectives. Nevertheless, there were instances where the budget had not covered certain

objectives stated in the action plan accordingly it was observed that objectives and aims stated in the Corporate Plan of the Authority were not at an achievable level.

#### 4.2 Internal Audit

-----

The post of Chief Internal Auditor had been vacant since 14 February 2011 and an Accountant had been appointed to act in this post. Even though there were two internal audit officers in the approved cadre, two casual officers had been appointed to those posts.

According to the reply sent by the Chairman on 14 June 2012 an Accountant had been appointed for the post of Chief Internal Auditor and action would be taken to recruit other vacancies, immediately once the recruitment procedure is approved.

#### 4.3 Procurement Plan

-----

A procurement Plan had not been prepared by the Authority.

#### 4.4 Budgetary Control

-----

The following matters were observed.

- (a) Even though a provision of Rs. 6.57 million had been made in the year 2011 for the determination of quantity of gold (Assay) division it had been abandoned though a sum of Rs. 6.32 million had been allocated to do the activity with the assistance of the University of Moratuwa.
- (b) A Provision of Rs. 15 million had been made in the year 2011 for closing mines and a sum of Rs. 2,624,920 had been spent for 3 Projects as at 31 December. Accordingly more than 82% had been saved out of the provision.
- (c) Even though a sum of Rs. 7 million had been estimated in respect of 5 work sites for the improvement of environmental friendly gem mining, it had not been implemented.
- (d) In preparing estimates for foreign exhibitions, had been prepared irrespective of income receivable from participants.

- (e) A provision of Rs. 6.75 million had been made to make the payment to trainees who participated in a training programme conducted for the improvement of geuda cutting industry and only a sum of Rs. 7,500 had been spent.
- (f) Achievement of budgeted data ranged from 25% to 840%. According to these observations , it was observed that the Budget had not been made use of as an effective management control.

4.5 Tabling annual reports in Parliament  
-----

Annual reports for the years 2009 and 2010 had not been tabled in Parliament even by April 2012.

4.6 Conducting Special Investigations  
-----

There is no special investigation unit in the Authority and action in respect of petitions received to the Authority is taken by the Operations Officer and Manager (Legal). According to the information obtained from the Authority the number of petitions received by Zone 01 and 02 at Ehaliyagoda amounted to 22 out of which investigation of 19 had been completed. Complaints received by Ratnapura, Naula, Matara and Colombo offices had not been reported.

5. Systems and Controls  
-----

Weaknesses in systems and controls observed in audit had been brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Purchases
- (c) Payment of advances
- (d) Operations in determination of quantity of gold(Assay) division and valuation divisions
- (e) Preparation of bank reconciliations
- (f) Issue of licenses