

National Gem and Jewellery Authority 2013

The audit of financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive statement of income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21(1) of the National Gem and Jewellery Authority Act, No. 50 of 1993. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAT 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of

the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basic for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with the following Sri Lanka Accounting Standards were observed during the course of audit.

Reference to Sri Lanka Accounting Standards

(a) Sri Lanka Accounting Standard 7

Non-compliance

(i) Even though the tax paid in the year under review amounted to Rs.135,980,365 , that had been shown as Rs.73,880,544 in the cash flow statement.

- (ii) An expenditure of Rs.12,141,003 had been incurred in the year under review for the acquisition of assets while an adjustment of Rs.29,072,500 had been made to the assets. A sum of Rs.41,213,503 which included that adjustment had been shown as investment cash flows in the cash flow statement.
 - (iii) Even though the total dividends received in cash in the year under review amounted to Rs.901,934 , that had been shown as Rs.811,171 in the cash flow statement.
 - (iv) Even though cash received from the disposal of assets in the year under review amounted to Rs.130,700 , that had been shown as Rs.934,608 by adding the adjustments of Rs.449,500 made to the asset.
 - (v) Even though a provision of Rs.1,952,934 had been made in the year under review for the impairment of assets that had been shown as Rs.37,001,579 in the cash flow statement.
- (b) Sri Lanka Accounting Standard 16 The fair value of 12 motor vehicles valued at Rs.31,300,527 purchased in the years 2005, 2006, 2007 and 2008 of which the written down value had been zero, had not been shown in the books, whereas the idle ornament

equipment, machinery and geuda equipment costing Rs.8,275,635 of which book value had been zero, had been included under the non-current assets.

- (c) Sri Lanka Accounting Standards 32 and 39 The interest on fixed deposits amounting to Rs.216,381,558 and Rs.625,854,003 invested with the objective of being held till maturity had not been brought to account under the effective interest rate.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The provision for depreciation on 7 motor vehicle costing Rs.43,140,179 purchased in the preceding year had not been made in that year and as such the balance of the provision for Depreciation Account of the year under review had been understated by a sum of Rs.7,958,059.
- (b) A sum of Rs.540,937 payable to the suppliers of jewellery had been credited to the Jewellery Development Account instead of being credited to the respective Creditors Account thus overstating the balance of that account while the Creditors Account had been understated by that amount.
- (c) The sum of Rs.542,250 paid at the acquisition of two motor vehicles purchased on lease purchase system only had been brought to account and as such the total cost of those motor vehicles had not been computed and brought to account.

2.2.3 Accounts Payable

Sums of Rs.23,148,095 and Rs.2,568,825 payable in connection with land auctions and 10 per cent retention money respectively had been brought forward over a period of 05 years without being settled.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items in the financial statements had not been furnished for audit.

Item	Value	Evidence not made available
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	Rs.	-----
Land at Belideniya	889,000	Title Deed
Land at Naula	538,800	Title Deed
Contract on Modernisation of Ratnadeepa Showroom	2,724,037	Contract Agreement, Bills and Work Completion Certificates

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	

Chapter II Section 5.2.6	Even though a Selection Board including an officer of the Ministry should be appointed for recruitments and promotions

without doing so promotions had been made on the private commendations given by the Board of Governors.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 142(2)

In performing a service for a fee or charge receivable to the Government or the issue of licence and permits, such service should not be performed until the recovery is received and realized. Nevertheless, the service charges amounting to Rs.1,015,158 recoverable on the export of gems and jewellery recoverable on the value thereof had been recovered after delays ranging from 02 days to 16 days.

Financial Regulation 371(b)

Even though the advances granted for any purpose should not exceed Rs.20,000 , advances exceeding that limit had been granted.

(c) Procurement Guidelines No. 8 of 25 January 2006
Guideline 2.7.5

Even though a representative of the line Ministry should be appointed to the Departmental Procurement Committee, it had not been so done in connection with the contract for the modernization of the Ratnadeepa showroom fuel at Rs.2,383,533.

- Guideline 2.8.4
- A member from the Ministry or from an external institution had not been appointed to the Technical Evaluation Committee appointed for the above contract.
- (d) Public Enterprises Circular No. 39 of 09 October 2006
- The Chairman, the Director General and the Director (Land, Mining and Environment) had obtained 2,291 litres of fuel valued at Rs.364,600 and 2,476 litres of level fuel at Rs.400,007 and 3,282 litres of fuel valued at Rs.396,856 respectively during the year under review without obtaining prior approval.
- (e) Public Administration Circular No. 22/99 of 08 October 1999
- Official Motor vehicles had been allocated to 08 senior officers of the Authority not entitled to use official motor vehicles for private purposes without obtaining the approval of the Secretary to the Ministry.
- (f) Letter No. DMS/E2/33/7/2013/3 dated 03 November 2011 of the Department of Management Services
- Even though the creation of new posts in addition to the approved staff is not allowed, promotions had been made to two posts of Valuer / Gemmology though only one post had been approved.
- (g) Letter of the Director General of the National Gem and Jewellery Authority dated 01 December 2011.
- Even though a period of 06 months had elapsed after the export of the stocks of gems valued at Rs.251,265,020 for foreign exhibitions, action had not been taken for the recovery of the service charge on those stocks of gems amounting to Rs.807,467.

2.4 **Transactions not supported by Adequate Evidence**

The following observations are made.

- (a) A sum of Rs.340,504 exceeding the value of the contract for the modernization of the Ratnadepa Showroom situated in the World Trade Centre amounting to Rs.2,383,533 had been paid to the contractor without obtaining the approval of the Procurement Committee.

- (b) A sum of Rs.2,456,515 out of the Jewellery Development fund created by utilizing the sum of Rs.5,000 charged for the annual renewal of licences of the Jewellery Shops had been paid for other purposes.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2013 amounted to a pre-tax net-profit of Rs.120,084,002 as compared with the corresponding net profit of Rs.350,928,300 for the preceding year and as compared with the preceding year, a deterioration of Rs.230,844,298 in the financial result was indicated. The decrease of income by a sum of Rs.104,460,767 and the increase of expenditure by a sum of Rs.126,383,532 had impacted the deterioration in the financial results. The land auction income included in the income as compared with the preceding year had decreased by Rs.260,274,001 in the year under review.

3.2 Profitability

	2009 ----- Rs.	2010 ----- Rs.	2011 ----- Rs.	2012 ----- Rs.	2013 ----- Rs.
Income	219,443,811	228,963,191	250,300,467	612,003,941	507,543,175
Expenditure	230,941,998	261,929,677	222,488,066	261,075,641	387,459,173
Pre-tax Profit / (Loss)	<u>(11,498,187)</u>	<u>(32,966,486)</u>	<u>27,812,401</u>	<u>350,928,300</u>	<u>120,084,002</u>

It was observed that the profitability of the Authority had been subjected to heavy fluctuations during the several preceding years.

3.3 Analytical Financial Review

The following observations are made.

- (a) The total income of the Authority for the year under review as compared with the preceding year had decreased by a sum of Rs.104,460,767 or 17 per cent.
- (b) The total expenditure of the Authority for the year under review as compared with the preceding year had increased by a sum of Rs.126,383,532 or 48 per cent.
- (c) The net cash flow generated from the operating activities in the year under review amounted to Rs.90,541,060 and that amounted to Rs.404,192,548 in the preceding year.
- (d) Even through the equity to operating profit ratio amounted to 33.5 per cent in the preceding year, that had been 1.02 per cent in the year under review, thus indicating the considerable deterioration.

3.4 Legal Action instituted against the Institution and by the Institution

The following observations are made.

- (a) Seven external individuals had filed seven cases in the Courts against the Authority claiming compensation amounting to Rs.3,400,000.
- (b) The Authority had filed a case in the Courts against an external individual for a fraud of Government money for the recovery of a sum of Rs.2,964,625 and the losses related thereto.

3.5 Abnormal Increases in Expenditure

An abnormal increase in the following expenditure as compared with the preceding year was observed.

Particulars	2013	2012	Increase	Percentage of Increase	Observations
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	Rs.	Rs.	Rs.		
Maintenance Expenditure on Motor Vehicles	4,213,686	2,001,638	2,212,048	110	Expenditure on servicing motor vehicles had increased.
Legal Expenses	3,668,733	606,339	3,062,394	505	Provision had been made for expected legal fees.
Allocations for Compensation	3,400,000	195,300	3,204,700	1,641	Allocations had been made for various cases.
Provision for Depreciation	25,259,064	13,093,088	12,165,976	93	New motor vehicles had been purchased and depreciated.
Transport Allowances	5,228,000	3,585,250	1,642,750	46	Allowance had been increased.
Gratuity	8,115,151	(115,661)	8,230,812	7,166	A new accounting policy had been introduced for the adjustment of gratuity.

4. Operating Performance

4.1 Performance

4.1.1 Auction of Gemming Lands

The following observations are made.

- (a) Action had not been taken up to date to obtain the release of the land allocated to the Kuruwita Nalanda Ellawala Industrial Town for gem mining.
- (b) Even though the gemming lands of Barawardhana Oya and Hasalaka Oya had been auctioned, several buyers had paid advances on the bid amounts, action had not been taken for the recovery of the full amount and issue licences for gem mining.

4.1.2 Export of Gem and Jewellery

(a) Special Project for Export of Cut and Polished Gems

The following observations are made.

- (i) Thirty three vouchers relating to the gem containers for export of gems without inspection on the payment of US\$ 1,500 had been issued and the Customs at the Airport should cancel those vouchers and return to the Authority along with the invoices relating thereto. Nevertheless, action had not been taken recall 10 vouchers. As such the Authority could not furnish the accurate statistics on the value of gem exports to audit.
- (ii) In terms of Section 14(1)(f) of the National Gem and Jewellery Act, No. 50 of 1993, prevention of illegal export of gems from Sri Lanka is one of the key functions of the Authority. Nevertheless, that objective had not been achieved as the Valuers of the Authority do not examine and value the gems exported under the new methodology.

(b) Service Fee Waiver Facility for the Export of Gems for Foreign Exhibitions

The following observations are made.

- (i) Even though the unsold gems of high value exported for foreign exhibitions are brought back, the Authority had not followed methodologies for photographing and measurement of gems in order to ensure that the same gems carried to foreign countries are brought back.
- (ii) The approval for export and the laboratory test reports obtained abroad had not been furnished in connection with gems with export value of Rs.6,096,256 exported under the Service Fee Waiver Facility for laboratory tests abroad.

(c) Grant of Trade Licences for Export of Gems

The following observations are made.

- (i) In the issue of trade licences for the export of gems fees are recovered based on the value of the stock of gems and the owners of licences with lesser values, renew their licences temporarily for a higher value. But a methodology for the examination of such renewals had not been formulated.
- (ii) Despite the availability of a system for the payment of Rs.1,000 and obtain a trade licence under the same day service in accordance with the Citizens Charter of the Authority, instead of the new trade licence that should be obtained for exceeding the limit of the stock, permission for export had been granted based on invoice for the payment of the fee.

4.1.3 Lease of Trade Stalls of the World Trade Centre

An area of 8,700 square feet of the World Trade Centre had been obtained on rent basis and trade stalls had been given on rent basis to persons engaged in the gem and gem embossing industry.

The following observations are made.

- (a) Out of the trade stalls given on rent, the Authority had failed to recover the arrears of rent amounting to Rs.1,404,560 due from 04 trade stalls for the years 2008, 2009 and 2010.
- (b) Even though a Legal Division consisting of 04 officers including 02 Lawyers had been established in the Authority, out of the sum of Rs.177,944 recovered as the Lawyers' fees for signing the rent agreements for the years 2012/2013, a sum of Rs.88,972 representing 50 per cent had been paid to the Legal Officer as the notarial fees. A difference in the name used for that purpose and the name used for obtaining the salaries from the Authority was observed.
- (c) Lawyer's fees amounting to Rs.54,329 had been recovered from 3 trade stalls for which rent agreements had not been signed. The actual rent of 2 trade stalls had been understated by a sum of Rs.305,048 in the rent agreements and as such the stamp duty amounting to Rs.3,050 had been under-recovered.
- (d) Rent agreements for the year 2013/2014 had not been signed for 11 trade stalls while the rent agreements for the balance 26 trade stalls had been signed in the private office of the Legal Officer using the official seal of the Authority.
- (e) Even though the Legal Officer of the Authority is entitled to write deeds only for lands within the area of authority of the High Court of Avissawella, she had signed the rent agreements relating to lands and properties situated in the area of authority of the High Court of Colombo.

4.2 **Management Inefficiencies**

The following observations are made.

- (a) Even though a double cab motor vehicle used by the Ministry of Environment had met with an accident and the loss had not been assessed and recovered from the parties responsible.
- (b) A sum of Rs.92,948,578 had been paid to a private institution in the year 2009 for the construction of a laboratory. That laboratory had not been established even by March 2014. That institution had earned interest amounting to Rs.39,079,371 by investing the money from the year 2009 up to the end of the year under review and the Authority had been deprived of that interest income.
- (c) A sum of Rs.2,995,700 had been spent by the end of the year under review on the Ratnadepa Showroom maintained on 575 square feet of the World Trade Centre. Even though it had been commenced with the objective of encouraging the small and medium scale industrialists that objective had not been achieved.

4.3 **Idle and Underutilised Assets**

The following observations are made.

- (a) The equipment valued at Rs.4,352,949 purchased in the year under review for the establishment of a laboratory in the Galle area had been idling and action had not been taken even by March 2014 for the establishment of the laboratory.
- (b) Five photocopiers valued at Rs.443,000 purchased in the years 2002, 2003 and 2004 and handed over to the stores in the years 2011 and 2012 remained idle even by the end of March 2014.

4.4. Staff Administrative

The following observations are made.

- (a) The approved staff as at 31 December 2013 stood at 220 and the actual staff stood at 181 thus resulting in 39 vacancies. Out of the vacancies, 14 related to staff grades and 24 related to the non-staff grades. Nevertheless, 55 employees had been recruited on contract basis.
- (b) Four officers who had not-fulfilled the full qualifications according to the Scheme of Recruitment had been confirmed in service.

4.5 Identified Losses

Sixty two gem stones of export value of Rs.39,694,672 had been exported on the payment of Rs.1,000 as laboratory test fees. Out of those gem stones, 22 had been sold at a foreign exhibition. Even though the export had not been made on the basis of Service Fee Waiver Facility by paying Rs.10,000 as handling charges, a sum of Rs.45,885 only had been recovered as service charge on the items sold. The Authority had incurred a loss of Rs.152,588 as the recoverable service charge of Rs.198,473 had not been recovered.

4.6 Apparent Irregularities

Recruitment to the post of Human Resource Manager had been made by specifying the salary at 8 salary steps ahead and as such overpayments of salary amounting to Rs.79,200 and holiday allowance and incentives amounting to Rs.36,844 had been made in the year under review.

4.7 Motor Vehicles Utilisation

The following observations are made.

- (a) The fleet of 23 motor vehicles of the Authority in the preceding year remained even by the end of the year under review. Particulars of the utilization of the motor vehicles are given below.

Particulars	2013	2012
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	Rs.	Rs.
Fuel Consumption	8,532,071	7,066,448
Tyres and Tubes Fitted	1,254,082	587,342
Maintenance Expenses	4,213,686	2,001,636
Licenses and Insurance Expenses	1,316,336	1,765,808
	-----	-----
	15,316,175	11,421,234
	=====	=====

Accordingly, as compared with the expenditure for the year 2012, the expenditure on motor vehicles had increased by a sum of Rs.3,894,941 , that is 34 per cent.

- (b) The motor car used by the Chairman had run 23,415 kilometres from February 2013 to February 2014 and a sum of Rs.328,530 had been spent for the purchase of 10 tyres for that purpose.

4.8 Unsettled Audit Paragraphs

The former Chairman and the former Director General of the Authority had used additional fuel valued at Rs.728,501 and Rs.276,488 respectively in the year 2012 without approval and action had not been taken for the recovery of the money from those officers.

4.9 Build up of a Fund for the Provision for Employees’ Gratuity

Even though a provision of Rs.23,995,857 had been made in terms of the provisions in the Payment of Gratuity Act, an arrangement for the supply of funds to settle the future liabilities had not been made.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though the following activities set out in Section 14 of the National Gem and Jewellery Authority Act, No. 50 of 1993 had been included in the Corporate Plan for implementation, no action had been taken for the implementation of those activities.

<u>Section</u>	<u>Particulars</u>
14(d)	To undertake training of individuals and improvement specially in heat treatment and gem cutting for the improvement of the industry.
14(e)	To take necessary courses of action to create confidence of the gem and jewellery industry among the expected future buyers.
14(f)	Prevention of illegal removal of gem stones from Sri Lanka and illegal gemmining.
14(m)	Improvement of the gem and jewellery industry in Sri lanka and the creation of necessary Liaison with the Government Departments.

5.2 Action Plan

The physical progress of the Authority according to the Action Plan for the year 2013 as compared with the financial information is given below.

<u>Targeted Activity</u>	<u>Actual Performance</u>
(a) Formulation of a National Policy of the Gem and Jewellery	Even though this activity had been identified in the Corporate Plan for the years 2009 to

- | | |
|--|---|
| Industry | 2013 for finalization of implementation in the years 2010/2011 the Authority had failed to implement it even during the year under review. |
| (b) Conduct a Census of the Gem and Jewellery Industry | According to the Corporate Plan this should have been completed in the years 2009/2010. But it had not been conducted even in the year under review. |
| (c) To obtain legal validity for the analysis of the precious metals of all kinds of jewellery and stamping. | This has to be spread throuout the entire Island. Even though a sum of Rs.85 million had been allocated for the establishment of a laboratory in the city of Galle, it had not been implemented in the year under review. |
| (d) Reducing the export of Geuda to “O” | Even though provision of Rs.5 million had been made in the year under review for providing facilities for heat treatment and training and introducing cost effective systems, no progress of that had been achieved. |
| (e) Establishment of a Special Task Force for the Cessation of illegal gem mining | This had not been done up to the end of the year under review. |
| (f) To increase the export value of Gems and Jewellery | Even though 08 foreign exhibitions had been planned for the year under review and allocation of Rs.17.8 million had been made for the purpose, the progress had been at 50 per cent level. |
| (g) Creation of Human Resources commensurate with the demand | Action had not been taken to fill the following vacancies which are directly |

of the Gem and Jewellery Industry to achieve good competitiveness and resources.

committed to the Gem and Jewellery Industry.

Assistant Director (Valuation / Gemmology)

Development Assistant

Environment Assistant

Export Services Officer

Valuer / Gemmology Assistant

Laboratory Technicians

Assistant Technologist

(h) Creation of Social Responsibility through the creation of a detailed welfare system

A welfare system for the gem mining community had not been created up to the end of the year under review.

(i) Establishment of an Advanced Laboratory for the examination and certification of gems

Not done up to the end of the year under review.

5.3 **Procurement Plan**

A detailed Procurement Plan in terms of Section 4.2.1 of the Procurement Guidelines with separate identification of the requirements of each Division and specifying the civil works, goods and other services that should be procured during the respective periods had not been prepared.

5.4 **Budgetary Control**

Significant variances were observed between the budgeted information and the actual information thus indicating that the budget had not been made use of as an effective instrument of management control.

5.5 Tabling of Annual Reports in Parliament

The Annual Report for the year 2012 had not been tabled in Parliament even by May 2014.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority by the detailed report issued in terms of Section 13(7)(a) of the Finance Act, No. 38 of 1971. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Maintenance of Motor Vehicles
- (c) Supervision of the Conditions of Gemming Licences
- (d) Conducting Auctions of Gem Lands
- (e) Human Resources Management
- (f) Grant of Advances