

Gem and Jewellery Research and Training Institute - 2010

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Gem and Jewellery Research and Training Institute had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards give a true and fair view of the state of affairs of the Gem and Jewellery Research and Training Institute as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following deficiencies were observed.

- (a) A motor vehicle had been revalued and its value had been taken to accounts but the book value of the asset and its depreciation provision had not been eliminated from accounts. As such, the asset account and the provision for depreciation account had been overstated by Rs.1,500,000 respectively.
- (b) Even though the provision for depreciation should be made since the date of purchase in terms of Sri Lanka Accounting Standard 18, the Institute had not depreciated its assets for the year of purchase. The Chairman's reply on 06 June 2011 stated that the continuously adopted policy of the Institute up to now is that no provision is made for the year of purchase and the provision is made from the ensuing year.

- (c) An under provision of Rs.13,405 had been made in the provision for gratuities account.

1.2.2 Accounts Receivable and Payable

The following matters were observed.

- (a) Even though 8 years had elapsed for a sum of Rs.4,527,422 receivable from the Gem and Jewellery Authority shown in the financial statements of the Institute since 2002 as interest income receivable on Treasury Bills, action had not been taken to settle it.
- (b) Action had not been to settle a sum of Rs.24,119 out of an advance given to the Barigama center in the year 2008.

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

Non-compliance with the following laws, rules etc., were observed.

Reference to Laws, Rules and
Regulations etc

Non-compliance

- (a) Public Enterprises
Circular No. PED/12 of
02 June 2003

- (i) Paragraph 4.2.2

Although a meeting of the Board of Directors should be held at least once a month and the performance of the Institute should be reviewed, only 4 meetings of the Board of Directors had been held for the year 2010.

(ii) Paragraph 6.5.3

Although the annual report of the Institute should be tabled in Parliament within 5 months after the closure of the year of accounts the annual report of the year 2009 had not been tabled even by April 2011.

(iii) Paragraph 5.1.3

The updated copies of the Corporate Plan approved by the Board of Directors should be submitted to the Line Ministry, Department of Public Enterprises, General Treasury and the Auditor General before the minimum of 15 days of the beginning of the year of accounts. But, it had been submitted to the Board of Directors and to the Ministry on 24 September 2010, 08 February 2011 respectively. The Chairman had informed that the dissolution of the Board of Directors had been the reason for delay.

(iv) Paragraph 8.3.2

Even though it was stated that the Chairman was entitled only for the monthly allowance, a sum of Rs.165,000 at Rs.25,000 per month in the preceding year and a sum of Rs.300,000 in the year under review had been obtained in addition to that.

(b) Public Enterprises
Circular No. PED/50 of
28 July 2008
Paragraph 2

(i) Even though the additional fuel allowance can be claimed only in respect of duties carried out, out side the place of work additional fuel valued at Rs.100,900 had been obtained by the Director of the Institute for the participation of a course, private visits and normal official purposes.

(ii) It was stated that the prior approval of the secretary to the Ministry should be obtained for additional fuel only for the special duties carried out outside the service station, the approval of the Secretary to the Ministry had not been taken for additional fuel valued at Rs.548,516 obtained for the period from February to 31 December 2010 by the Chairman. A sum of Rs.240,000 under his fuel limit and a sum of Rs.600,000 for additional fuel had been obtained in the year under review. By incurring this additional fuel expenditure for normal duties had also been obtained.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented the operation of the Institute for the year ended 31 December 2010 had resulted in a deficit of Rs.778,960 as against a surplus of Rs.644,548 for the preceding year, thus indicating a deterioration of Rs.1,423,508 in the financial result as compared with that of the preceding year. The following matters were further observed.

- (a) The ratio between the current assets and the current Liabilities of the Institute amounted to 0.88 and 0.61 in the year under review and the preceding year respectively.

- (b) The accumulated Fund had continuously shown negative balances. The negative balances from 2008 to 2010 amounted to Rs.63,440,426 , Rs.62,016,683 and Rs.62,815,644 respectively.

2.2 Operating Review

2.2.1 Performance

I. Conducting Training Courses

The following matters were observed.

- (a) Progress of students participation in the courses, income from courses and consultancy fees during the period 2008 to 2010 were given below.

<u>Name of Course</u>	<u>No. of Students Participated</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Creation of jewellery designs	40	13	30
Manufacture of jewellery	53	50	18
Fixing stones for ornament	-	06	07
Gemology	91	28	38
Gem cutting and polishing	188	41	55
Geuda heat treatment	65	16	36
Grading of colour gems and Marketing	26	08	45
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Total	<u>463</u>	<u>162</u>	<u>229</u>
	Rs.	Rs.	Rs.
Course income	5,597,000	2,614,000	2,397,000
Consutancy fees	5,948,378	4,441,632	3,968,717

- (i) A sufficient income, even to cover the consultancy fees had not been received in the years 2009 and 2010. Decrease in income in the years 2009 and 2010 amounted to 53% and 57% respectively as compared with that of the year 2008.
- (ii) Deterioration of 65% and 50% respectively in students participation for training in the years 2009 and 2010 were observed as compared with that in the year 2008.
- (iii) It was estimated to train 375 students in 06 courses in the year under review, but only 229 students or 61% of the estimates had been trained.
- (iv) Even though it was targeted to establish 4 Training Centres in the North and East areas during the year 2010 according to the action plan for the year 2010, only 01 centre had been established. Even the training courses had not been commenced there in.

- (v) Even though it was targeted to gem cutting and polishing and conducting jewellery courses in the Warakapola Training Centre, any course had not been conducted.
 - (vi) Though Training units had been established, courses had not been conducted in the year 2010.
- (b) In terms of authority No.3 vested in this Institute by the Gazette Notification No. 882 dated 28 July 1995 of the Democratic Socialist Republic of Sri Lanka, escalation of mines, manufacture of jewellery, methods of burning gemstones and making plant and machinery for the development of Gem and Jewellery Industry and providing other instructions and under authority No. 5 holding workshops and seminars and publication of leaflets and books related to the relevant topics and works done should be carried out by the Institute. Nevertheless, such authorities and functions had not been carried out by the Institute.

(ii) Exploration and Assessment of Gem Deposits Project

In the functions vested in this Institute by the Paragraph 5 of the Gazette notification of 28 July 1995 it was stated as a main function to carry out survey and research on gem and mineral in Sri Lanka. Despite the Laboratory facilities and approved cadre had been determined therefore, a provision of Rs.36 million had been approved by the Cabinet of Ministers to begin a 4 year project from 2007 to 2010.

The following matters were observed in this regard.

- (a) Although provisions had been made since the year 2007 on this project the percentage of expenditure incurred in each year were given below.

Year	Estimated Expenditure	Actual Expenditure	Total Expenditure as a percentage of Provision
	Rs.	Rs.	%
2007	9,000,000	186,044	2.06
2008	9,000,000	273,188	3
2009	9,000,000	270,471	3
2010	9,000,000	1,286,453	14

- (b) The actual expenditure of the project for the period 2007 to 2010 amounted to Rs.2,016,156 and the analysis of that expenditure was given below.

Year	Salaries and Overtime	Field Inspection Expenses	Purchase of Maps	Drilling Machine Display Expenses	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2007	-	-	154,750	-	31,294	186,044
2008	-	18,185	186,000	-	69,003	273,188
2009	59,105	4,100	-	107,923	99,343	270,471
2010	<u>700,269</u>	<u>152,625</u>	<u>13,362</u>	<u>138,668</u>	<u>281,529</u>	<u>1,286,453</u>
Total	759,374	174,910	354,112	246,591	481,169	2,016,156

As a percentage of total expenditure

38% 8.5% 17% 12% 24%

Accordingly, 8% to 17% had been spent to achieve the principle objective.

- (c) According to the Management Services Circular No. 33 to begin a project by using the domestic funds the value there of should be more than Rs.500 million. Nevertheless, the value of this project amounted to Rs.36 million. However, 5 officers of the Institute with the approval of the Department of Management Services in fulltime and another 5 officers in part time had been employed in this project.
- (d) Out of the annual capital provision, a sum of Rs.500,000 had been deposited in a separate account in the Bank of Ceylon without the approval of the Treasury. Even though the activities of this project had been suspended in June, project expenditure of Rs.78,872 had been incurred from this account after July 2010.
- (e) A sum of Rs.15,872,172 had been utilised from the capital and recurrent provisions of the Institute during the period from 2007 to 2010 for the purchase of machinery, vehicles and other materials required for this project.

2.2.2 Management Inefficiencies

The following matters were observed.

- (a) A former Senior Manager of the Institute had been committed on 6 charges out of 9 including a fraud of a stock of gold and silver valued at Rs.2,395,749 and the report of the one-member tribunal had been issued on 05 February 2010. The Attorney General had informed on 17 May 2010 that this officer should be punished in terms of the Establishments Code and action should be taken to file a plaint in the Attorney General's Department to recover the financial loss along with a Statement of accounts. However, action had not been taken accordingly, even by 26 April 2011.

- (b) Despite the performance of the Institute had deteriorated by 53% and 57% in the years 2009 and 2010 as compared with that of the year 2008 as stated in Paragraph 2.2.1 of this audit report and the research activities had been at a low level, the salaries of the top management had been increased in the year 2009 by 24% and 12% by the Chairman of the Institute stating the performance basis.
- (c) Even though the Chairman reporting for duties in the Institute only for one day per week, the monthly allowance and the fuel allowance entitled to a fulltime Chairman had been obtained. Accordingly, the total allowances of Rs.1,175,141 and Rs.1,200,000 had been obtained for the preceding year and the year under review. It was stated in the reply that the Chairman had to visit regional Training Centres for supervision.

2.2.3 Uneconomic Transactions

The following matters were observed.

- (a) According to the agreement entered into with a private firm on 04 October 2005 to obtain security services, it was agreed to employ 2 senior security officers (Day and night 12 hours shifts). Even though the service of this firm had been obtained for the period 2005 to 2010, the agreement had not been revised. According to the attendance register of the security officers in Ratnapura office, it was observed that 2 security officers had been served but in making payments, payments had been made to 3 officers. A sum of Rs.559,911 had been paid to a person whose attendance records were not available even without a service code number for the period of 15 July 2008 to 31 December 2010.

- (b) The total amount of Rs.402,416 comprising a sum of Rs.160,916 for the year 2009 and Rs.241,500 for the year 2010 had been paid to a security officer who had not dressed with the uniform and even without a service number, employed for the performance of duties of a KKS in the Training Centre in Colombo.

2.2.4 Transactions without Authority

The following matters were observed.

- (a) The director who was in the salary step of Rs.50,630 under HM 1-1 salary group of Rs.38,530 (1100x15) 55,030 had been placed in the salary step of Rs.61,655 which was the 11th increment under HM - 2 - 3 salary group of Rs.47,245 (1310x12) 62,965. The both Accountant and the Administration personnel officer who were in the salary step of Rs.38,330 under MM 1-1 salary group of Rs.25,640 (665x3-735x7-925x15) 46,655 had been placed in the salary scale of Rs.42,030 which was the 16th increment ahead of the same salary group of Rs.28,370 (735x6-925x15) 46,655 group by the Chairman with effect from 01 May 2009 without the approval of the Department of Management Services. The unauthorities payments so made from 01 May 2009 to 31 December 2010 totalled Rs.368,500.
- (b) The Chairman had employed an investigation officer (a security officer) and a driver stating that his special investigation duties and the attendance of these two employees had not been recorded either in the attendance register of the Head Office or the branches. Payments had been made to them on the basis of a report issued by the Chairman's Division. A sum of Rs.235,100 as for the investigations officer (Security officer) and Rs.165,240 as for the driver, totalling Rs.400,340 had been paid in the year under review.

2.2.5 Underutilised Assets

Even though a drilling machine had been purchased in the year 2007 by incurring a cost of Rs.12,309,013 , proper utilisation had not been obtained from this machine up to 2010. A sum of Rs.246,591 for two test runs of this machine and a sum of Rs.99,434 on insurance charges had been spent.

2.2.6 Human Resource Management

The following matters were observed.

(a) Personnel Information

The approved and the actual cadre as at 31 December of the year under review were observed as follows.

	<u>Approved Cadre</u>	<u>Actual Cadre</u>
Staff	15	15
Non-staff	24	15
Minor employees	18	11
Contract / casual	-	05
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Total	<u>57</u>	<u>46</u>

(b) Employees on contract, casual and assignment basis for various posts had been recruited during the year under review and a sum of Rs.595,799 had been paid to them. These appointments had been made by the Chairman without the approval of the Board of Directors and without being examined the relevant qualifications for each post.

- (c) According to the letter No. 02/04/04/29-1 dated 18 May 2010 of the additional secretary to the Ministry of Environment, all recruitments and promotions had been stopped with immediate effect. Nevertheless, 3 recruitments for the posts of driver (without vacancies), external management assistant and external training promotion had been made while there were permanent cadre in excess of the approved cadre.
- (d) It was observed that promotions had been given in 4 instances by the Chairman of the Institute even without the approval of the board of Directors and the salaries of the promotions had been determined contrary to the Section 5 of Chapter VII of the Establishments Code. Accordingly a sum of Rs.148,407 had been paid to 4 employees in excess of the specified salary scales.
- (e) A female management assistant had been appointed by the Chairman of the Institute to act in the post of the programme officer since 12 April 2010 without the approval of the Board of Directors and an acting salary of Rs.35,857 had been paid in the year under review without the approval of the Secretary to the Ministry.
- (f) In the implementation of provisions in the Management Services Circular No. 30 as per the letter No. DMS/A2/GJRTI dated 29 May 2007 of the Department of Management Services, the salaries of the entire staff had been fixed, contrary to the sub-sections 4.3 , 4.4 and 4.5 of Chapter VII of the Establishments Code.

2.2.7 Budgetary Control

Significant variances ranging from 4% to 100% were observed between the estimated income and expenditure and the actuals, thus indicating that the Budget had not been made use of as an effective instrument of Management Control.

3. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Attention is needed in respect of the following areas of control.

- (a) Research Activities
- (b) Conducting Courses
- (c) Recruitments and Promotions
- (d) Stock Verifications
- (e) Supply of Security Services
- (f) Fuel Expenses