

National Gem and Jewellery Authority - 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 National Gem and Jewellery Authority 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 National Gem and Jewellery Authority 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 Sri Lanka Accounting Standards

Balances of Rs.4,212,623 and Rs.6,126,285 in the 'Illama' Insurance Fund and the contractors' account shown under creditors in the Balance Sheet had been taken into income during the year under review. This had not been disclosed in the accounts in terms of Sri Lanka Accounting Standard No. 03.

1.2.2 Accounting Deficiencies

The following matters were observed.

- (a) Rent amounting to Rs.3,187,000 receivable from external institutions on renting out trade stalls in the Ratnapura New building had not been included in the accounts.

- (b) According to the bills submitted for the years 2007 , 2008 and 2009 the total unpaid audit fees amounted to Rs.1,416,620. However, the accrued audit fees shown in the accounts amounted to Rs.2,441,077.
- (c) The forfeited gemming deposit account had been understated by Rs.100,000.
- (d) A sum of Rs.357,500 payable for 14 ornament boxes obtained in December 2010 as a promotion item had not been brought to account in the year under review.

1.2.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Out of the refunded cheques valued at Rs.163,949 included in the debtor balance, 6 cheques valued at Rs.29,436 had remained outstanding for 03 to 08 years and 8 cheques valued at Rs.64,114 had remained outstanding for 01 to 03 years.
- (b) A sum of Rs.9,786,537 receivable from the Gem and Jewellery Research and Training Institute had included a balance of Rs.4,898,232 remaining for more than 5 years and the balance remains for 2 to 5 years amounted to Rs.4,521,304.
- (c) Action had not been taken to settle the total amount of Rs.86,932 comprising a distress loan of Rs.57,407 included in the sundry debtor balance, rent amounting to Rs.20,500 receivable from the building at Belideniya and an insurance receivable Rs.9,025 even more than 08 years had elapsed.

- (d) The Authority had not recovered a sum of Rs.4,975,285 receivable from Sub-lessees for sub-letting trade stalls established in the World Trade Centre during the year under review and the preceding 2 years.
- (e) 4 creditors balances totalling Rs.3,515,043 had remained for more than 5 years and action had not been taken to settle it even in the year under review.

1.2.4 Lack of Evidence for Audit

Due to the non-availability of the cash deposit receipts relating to the refund of security deposits amounting to Rs.185,000 and the approval of the Director General therefore, the album and CD relating to the payment of photographic charges amounted to Rs.20,000, the agreement entered in to between the Authority and the State Mortgage and Investment Bank relating to a housing loan scheme of Rs.3,094,808, the file relating to the expenditure amounting to Rs.1,965,330 incurred on advertising the trade exhibition in Television and newspapers and the Boards of Survey reports in respect of fixed assets valued at Rs.232,100,125 , those items could not be satisfactorily vouched or accepted in audit.

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

Instances of non - compliance with the following laws, rules etc were observed.

Reference to Laws, Rules Regulations etc,	Non - compliance
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(a) Section 5.2.1 and 5.2.5 of the Good Governance Circular No. PED/12 of 02 June 2003	In preparing the annual budget, the cash flow statement and the action plan should be included and the

budget approved by the Board of Directors should be submitted to the relevant Ministry, Treasury and the Auditor General. Action had not been taken accordingly in respect of the budget for the year 2010

(b) Public Enterprises Circular No. 105 of 20 November 1995

Even though it was stated that 01 per cent of the previous year's after tax profit can be spent on grants and gifts with the approval of the Cabinet of Ministers, souvenirs valued at Rs.2,036,464 had been awarded without approval despite there was a loss in the preceding year.

(c) Public Finance Circular No. 440 of 20 November 2009 and Procurement Guidelines

A sum of Rs.1,061,350 had been spent for the purchase of souvenirs, jewellery boxes and Gems but recommendations of the Department procurement Committee and the Technical Evaluation Committee had not been obtained therefore even without calling for open quotations. It was stated in the Chairman's Letter dated 13 May 2011 that this had been procured for the requirement of the Ministry.

(d) Public Enterprises Circular No. PED/50 of 28 July 2008

A sum of Rs.165,079 for 1505.99 litres of fuel had been spent during the month of May, June and July

2010 for 5 vehicles in excess of the approved fuel limits and a proper approval was not made available for audit.

(e) Procurement Guidelines

(i) Paragraph 2.14.1

By incurring the expenditure of Rs.2,355,074 for the installation of exhibition planks for the international level exhibition, an officer with the subject knowledge had not been appointed to the procurement committee. In the reply letter presented by the Chairman on 13 May 2011 it was stated that this has been proposed and approved by the Jewells Sri Lanka organizing Board.

(ii) Paragraph 6.2.2

(a) Even though at least 21 days should be given to submit bids when open bids are called for, only a short period of 3 days had been given in calling for tenders for the selecting of an institution for the management of activities in the trade exhibition.

(b) Reasons for the selection of price of Rs.12,381,500 (without taxes) equals approximately to twice out of the minimum

quotation submitted for Rs.6,739,500 (without taxes) were not made available for audit.

(iii) Paragraph 5.4.4(i)

Even though only 20 per cent advance can be given , it was agreed to pay advances in 2 instances at 20 per cent and 30 per cent in ascertaining management services for the Trade exhibition. A sum of Rs.6,079,587 or 43 per cent of the total value had been paid in this connection.

(iv) Paragraph 4.3.1(c)

Even though only 10 per cent of the total cost estimate can be allowed for contingencies, the approval for additional expenses up to 49 per cent of the total cost of Trade exhibition had been obtained and a sum of Rs.4,862,500, or 39 per cent of the total cost had been paid.

(v) Paragraph 5.4.8

Even though a performance bond less than 5 per cent of the total cost of contract or purpose should be obtained such a bond had not been obtained for the management service of the Trade exhibition.

2. Financial and Operating Review

2.1 Financial Review

1.1.1 Financial Results

According to the accounts presented, the operations of the Authority had resulted in a pre-tax net loss of Rs.32,966,486 as compared with the pre-tax net loss of Rs.11,498,187 for the preceding year. The main reasons for increasing the net loss had been the decrease in income on land auctions by Rs.31,409,598 and increase in establishment and promotion expenses by Rs.15,458,117 and Rs.15,764,568 respectively.

2.1.2 Analytical Financial Review

The position of pre-tax financial results of the Authority for the year under review and the preceding 2 years is given below.

Year	Profit / (Loss)
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2008	29,407,730
2009	(11,498,187)
2010	(32,966,486)

Accordingly the deterioration of Rs.40 million in the year 2009 and Rs.21 million in the year 2010 was observed. Attention should be drawn to increase the profits / minimise the losses.

2.2 Operating Review

2.2.1 Performance

The following matters were observed.

(a) Issuing of Licenses

The percentage of reaching the estimated targets of issuing the number of licenses for Gem industry by the Colombo and regional offices of the Authority had been 67 per cent of Gemming licenses, 74 per cent of Trade licenses, 60 per cent of Gem cutting licenses and 37 per cent of Gem auction licenses during the year under review.

(b) Income on Statutory Functions

The Statutory functions in the year under review and the preceding 2 years are as follows.

	2008	2009	2010
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	Rs. Mn	Rs. Mn	Rs. Mn
Land Auctions - State Lands	0.4	40.6	-
Land Reform Commission and Plantation Companies	54.5	8.2	17.5
Gemming Licenses	8.5	7.7	19.1
Trade Licenses	21.3	18.6	20.7
Commission on Exports	62.7	42.4	47.3
Gem cutting Licenses	0.3	0.2	0.2
Commission on Geuda Exports	7.5	5.8	5.5
Mineral Taxes	1.7	2.4	2.8
Total	156.9	125.9	113.1
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Accordingly,

- (i) income on statutory functions had decreased by 28 per cent in the year under review as compared with that of the year 2008.
- (ii) Despite a sum of Rs.1,469,836 had been spent on raids during the year under review and Gemming and Trade Licence fees had been increased by 50 per cent the income on statutory functions had decreased at a considerable amount during the year under review.
- (iii) Even though it was estimated to conduct 888 auctions of crown lands and lands belonging to the Land Reform Commission and plantation companies, only 112 or 12 per cent of the estimated land auctions had been conducted during the year under review.

(c) Exports of Gem and Jewellery

Exports as compared with the last 4 years are as follows.

	Rs. million				
	2006	2007	2008	2009	2010
	-----	-----	-----	-----	-----
Exports of Gems	9,853	10,444	8,281	7,226	7,488
Export of Jewellery	1,751	2,076	1,728	1,523	1,490
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Total	11,604	12,520	10,009	8,749	8,978
	=====	=====	=====	=====	=====
Export promotion expenses (Local / foreign)	17	42	35	33	49
Percentage of increase in exports (including previous years)		7 %	(25 %)	(14 %)	3 %

- (i) Gem exports had decreased by 21%, 31% and 28% in the years 2008, 2009 and 2010 respectively as compared with that of the year 2007.
- (ii) Jewellery exports had decreased by 16.76%, 26.63% and 28.22% in the years 2008, 2009 and 2010 respectively as compared with that of the year 2007.
- (iii) Exports had not shown an improvement as compared with that of the cost of export promotion.

(d) Foreign Trade Exhibitions - 2010

- (i) Out of the nine foreign trade exhibitions planned to be participated according to the export promotion plan for the year 2010 the Authority had participated only for 5 exhibitions.
- (ii) Expenses incurred on foreign trade exhibitions during the year 2010 in excess of estimates are given below.

Name of Trade Exhibition -----	Estimated expenditure ----- Rs.	Actual Expenditure ----- Rs.	Variance ----- Rs.
Shanghi Jewellery Exhibition	1,887,356	4,866,539	2,979,183
China International Gold Jewellery and Gem Fair	1,040,331	2,749,475	1,709,144
Singapore International Jewellery Exhibition	1,579,993	2,024,473	444,480
Chinese International Ornamant Exhibition (Beijing)	2,119,413	5,092,353	2,972,940

- (e) Even though 1155 raids had been estimated to be carried out, only 584 raids had been carried out. The income earned therefrom amounted to Rs.11,554,417.

2.2.2 Management Inefficiencies

The following matters were observed.

- (a) A cab had been purchased at Rs.9,700,000 stating the requirement of the functions of the Land Excavation and Technical Division. But the vehicle had been used as an official vehicle of the working Director without using for the intended purpose.
- (b) A fund had been established from the income of Rs.99,545,573 collected from exports during the period from 2001 to 2005 for the establishment of a quality laboratory. Even though a sum of Rs.7,046,995 had been paid to an American Jewellery Company from this fund by which the supply of facilities for the issue of quality certificates had been agreed upon, no any useful purpose had been made. Necessary steps had not been taken to construct the laboratory even up to April 2009. The balance of this fund amounting to Rs.92,498,578 had been given to a private institution with the approval of the Cabinet of Ministers in April 2009 to perform the same purpose. Nevertheless, a newspaper advertisement had been published by the Authority to fill two vacancies by incurring an expenditure of Rs.26,208.
- (c) Items such as name boards, special gem display area, information desk with two spot lights, entrance branding, display structure boxes had been purchased for the Trade exhibition valued at Rs.1,760,000 had not existed in the premises of the Authority even after a lapse of 5 months of the trade exhibition. It was informed in writing that these items had been stored in a private location. These assets had not been included in the Register of Fixed Assets of the Authority as well.

- (d) An agreement had been entered into with the Sri Lanka Insurance Corporation Ltd since 01 January 1998 in respect of a Social Insurance Scheme named as 'Illama' for the Gem mine labourers. An annual instalment of Rs.120 had been charged from labourers for this insurance scheme. This scheme had become dormant since the year 2000 and action had been taken to transfer the balance of this account to the sundry income account in 2010.

2.2.3 Uneconomic Transactions

The following matters were observed.

- (a) The Authority's contribution for the Medical Assistance Scheme as at 31 December 2010 amounted to Rs.4,000,000 while the employees contribution amounted to Rs.236,550. Accordingly 6 per cent of the total medical assistance fund had been from officers and the Authority's contribution represented as high value as 94 per cent. The payment of medical assistance during the year had been 99.9 per cent of the total contribution.
- (b) According to the agreement entered into with the State Mortgage and Investment Bank by the Authority, a housing loan scheme had been in operation. All housing loans obtained by officers therefrom had been settled as at 31 December 2010. Nevertheless, a sum of Rs.3,094,808 was due to the Authority from the State Mortgage and Investment Bank and an interest of 5 per cent approximately is being received by the Authority, but action had not been taken to settle this money and to utilize it in an effective and economical purpose.

2.2.4 Exeptional Expenditure

The following matters were observed.

- (a) The Board of Directors had granted the approval for the payment of Rs.6.5 million for the construction of the exhibition stall made similar to the specimen of a Gem stone in the 'Nidahasa' cultural festival on a request made by the Department of Government Information and advance of Rs.2,000,000 had been paid to the Department of Government Information.
- (b) The Authority's does not conduct training courses and the Gem and Jewellery Research and Training Institute had been establish for that purpose. Nevertheless, a sum of Rs.1,166,704 had been spent for the publication of an advertisement for the conduct of a diamond cutting and polishing course in collaboration with the Sri Lanka Diamond Manufacturers Association.

2.2.5 Improper Transactions

The following instances were observed.

- (a) An expenditure of Rs.2,063,008 had been incurred on a get-together held for the introduction of the Export Promotion and Marketing Plan for the year 2011 to foreign Ambassadors. An estimate for this programme had not been prepared thereon and the approval of the Board of Directors had also not been obtained.
- (b) In the test examination of daily running charts it was observed that the quantity of fuel which should have been remained at the end of the date of run had been recorded less than 466.04 litres valued at Rs.36,385 in respect of 4 vehicles. A sum of Rs.23,960 had been spent on 310.5 litres of fuel pumped into 3 vehicles in excess of their tank capacity.

- (c) Ascertaining lodging and subsistence allowance for 4 officers had obtained in excess of their entitlements of split rates / combined rates stated in the paragraph 2.2.1(vi) of the Ministry of Finance and Planning Circular No. MF6/1/1/96. After considering the money settled after the journey, the excess money obtained by these officers amounting to US\$ 1391.9 was due to the Authority.
- (d) In addition to the lodging and subsistence allowance and incidental expenses in terms of the Circular stated in the paragraph (c) above, a sum of US\$ 4000 had been paid to 5 officers as emergency expenses with the approval of the Board of Directors and without the Treasury approval. Of this money telephone bills and taxi fares had been settled which should have been spent from incidental expenses. The balance money of US\$ 1765.5 had ben returned to the Authority.

2.2.6 Idle and Underutilized Assets

The following idle and underutilized assets were observed.

- (a) The value of the building purchased in the year 2006 expecting to earn a high rent income, amounted to Rs.15,461,013 as at 31 December 2010. An annual provision for depreciation amounting to Rs.309,220 on this building is written off against the profit and this has been utilized only to operate the Regional office without being utilized for any useful purpose.
- (b) Even though the Chairman had informed that the building constructed at a cost of Rs.26,127,617 in the New Town, Ratnapura had been vested to the Sabaragamuwa Provincial Council on the request made by the Government, an annual depreciation of Rs.522,552 is written off against the profit by the Authority.

- (c) The building at Belideniya valued at Rs.5,358,501 as at 31 December 2010 had not been utilized for any useful purpose. A lease rent agreement had been entered into with the Vocational Training Institute for conducting training courses in this building since 05 January 2010 at free of charge. Nevertheless, any course had not been conducted in this building even by 01 September 2010 and the audit physical verification observed that this building premises had become a jungle. According to the reply of the Chairman on 13 May 2011 it was stated that 30 persons are being trained on Gem cutting and polishing.
- (d) Without determining the exact staff working in the Regional Office, Matara and the required office space, a two storied building had been rented at a monthly rental of Rs.28,000. However, the entire first floor and one room in the ground floor had not been utilized.
- (e) Nine trade stalls in the World Trade Centre had remained idle without being rented out and the loss sustained by the Authority in the year under review amounted to Rs.7,441,649.
- (f) An expenditure of Rs.1,475,441 had been incurred during the period from 2001 to 2005 on work-in-progress under fixed assets. Any improvement thereon had not been carried out within the past 5 years and the project activities had been abandoned.

2.2.7 Resources of the Authority given to the other Government Institutions

According to the Circular No. 116 issued by the Ministry of Finance and Planning on 24 January 1997 the resources belong to Public Enterprises should not be used by the Ministry. Nevertheless, a sum of Rs.539,117 in respect of 3 vehicles belonging to the Authority, Rs.748,194 for foreign trips and Rs.341,277 for salaries, overtime and bonus of 4 employees who had been released to the Ministry had been paid by the Authority.

2.2.8 Identified Losses

The following matters were observed.

- (a) Due to non payment of water bills of Rs.6655 and the electricity bills of the Belideniya building which had been given on lease, sum of Rs.11,760 and Rs.43,375 had been paid for the re-connecting of relevant water and electricity supply respectively.
- (b) Three hundred invitation cards had been printed by incurring an expenditure of Rs.72,100 for the get together held in respect of the introduction of the Export Promotion and Marketing Plan for the year 2011 to foreign Ambassadors and the invitation cards had been sent only to 188 persons. Hundred and twelve invitation cards valued at Rs.26,317 had been over printed.
- (c) 54 spot lights and 18 halagen lights had been purchased from a private firm for hoarding diamond of the Trade exhibition and there were shortages of 2 halagen lights and 01 bracket timer valued at Rs.26,500 at the physical verification. This equipment had not been inventorised and 27 spot lights valued at Rs.369,000 were made available for audit on 02 June 2011.
- (d) A surcharge of Rs.10,350 or 50 per cent had been paid due to non-payment of Employees Trust Fund on due date.
- (e) A sum of Rs.107,570 had been spent for obtaining air tickets and visa to participate in the Hallmarking Convention scheduled to be held in Israel during the period 9 -15 October 2010. However, officers had not participated therein.

2.2.9 Human Resource Management

The following instances were observed.

- (a) It was revealed that there were vacancies in comparing the approved cadre with the permanent cadre recruited by the Authority.

Category	As at 31 December 2010		
	Approved	Actual	No. of Vacancies
Executive	54	30	24
Non-executive	167	95	72
Primary	51	41	10
Contract	-	45	-
Casual	-	35	-
Temporary and Others	-	04	-
Total	272	250	106

- (b) Despite it was stated in Paragraph 9.3.1 (iv) and (vii) of the Public Enterprises Circular No. PED/12 dated 02 June 2003 that appointments on acting / covering up duties basis should not be done for more than of 3 months, appointments on acting / covering up duties basis had been made by the Authority for the periods ranging from 4 to 12 months without recruiting the permanent posts for vacant positions. Accordingly, the amount paid for 12 posts during the year under review amounted to Rs.593,184 while the amount paid for 9 posts during the preceding year amounted to Rs.727,105.

- (c) 84 officers had been recruited on contract and temporary basis for vacant posts and the approval of the Department of Management Services had not been obtained for 30 employees who had been recruited on contract basis during the year under review.
- (d) In terms of Paragraph 9.3.1(viii) of the PED/12 Circular, filling a post in a managerial level should be done in accordance with a succession plan. However, the Authority could not recruit permanent officers for vacant positions due to non availability of such a plan.
- (e) As a result of placing the officers recruited on contract basis on a higher salary scale than the basic salary, contrary to the Circular No. 6/2006, an over payment of Rs.156,400 had been paid to 15 officers (being identified).
- (f) An appointed member to the Board of Directors had been appointed since 31 May 2010 for the post of Working Director which was not included in the approved cadre. Despite he had not worked full time, monthly allowance of Rs.20,000 and a monthly fuel allowance of Rs.10,950, totalling Rs.216,650 , payable to a Working Director works in full time had been paid to him.

2.2.10 Corporate Plan

As the targets relating to the development of Gem and Jewellery industry included in the Corporate Plan prepared for the period 2006 - 2010 could not be achieved by the Authority, the same targets had been included in the Corporate Plan for the period 2009- 2013. The budget for the year under review had not been prepared to appear clearly, the activities stated in the Action Plan for the year 2010 according to the Corporate Plan for 2009 - 2013.

2.2.11 Budgetary Control

Significant variances were observed between the estimated and the actual income and expenditure ranging from 21% to 74%, thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

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

- (a) Payment of Taxes
- (b) Refund of Security Deposits
- (c) Vehicles Utilization
- (d) Recruitments
- (e) Stock Control
- (f) Accounts Receivable
- (g) Payment of Advances
- (h) Preparation of Journal Vouchers
- (i) Procurement Procedure