

Gem and Jewelry Research and Training Institute - 2013

The audit of financial statements of the Gem and jewelry Research and Training Institute for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statements of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under any direction in pursuance of provisions in Articles 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 32(3) of the National Gem and jewelry Authority Act, No. 50 of 1993. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Managements Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standard 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 (ISSAI 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 auditors judgment, including the assessment of the risks of material misstatements of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute'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 Institutes 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 the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary nary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report the financial statements do not give a true and fair view of the financial position of the Gem and Jewellery Research and Training Institute as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made

- (a) In terms of Public Sector Accounting Standard 07. the fair value of fixed assets amounting to Rs 12,107,898 which had been purchased in the previous years the book value of which had become zero had not been taken to the books.
- (b) In terms of Sri Lanka Public Sector Accounting Standard 08 the required adjustments or disclosures in respect of possible contingent liabilities which may arise as a result of Court cases filed against the Institute had not been made.

2.2.2 Accounting Deficiencies

The following observations are made

- (a) A stock of gem valued at Rs. 399,000 had been brought to accounts as a stock of consumables under current assets. without being accounted under fixed assets.
- (b) Even though the balance of the Gratuity Fund Deposit Account relating to the year under review amounted to Rs 1,604,602, deposits and the interest thereon for the 2 months of the ensuing year amounting to Rs 164,982 had been added to that balance and as such the balance of that account had been overstated by Rs. 164,982 in the financial statements.

- (c) Even though three motor vehicles valued at Rs 21,200,000 given to the Institute by the Treasury as a grant had been registered in the name of the Institute those had not been brought to accounts as fixed assets.

2.2.3 Lack of Evidence for Audit

The following items in the financial statements could not be satisfactorily vouched or accepted in audit due to the unavailability of the evidence indicated against them.

Item	Value	Evidence not made available
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	Rs.	
(a) External instructors allowances	460,232	Register of Attendance for arrival for duty and the Register of Attendance of the Students.
(b) Consumables Stock	1,256,264	Stock Registers
(c) Consumables Stock written off	648,000	Stock Registers
(d) Payment of Building Rent	900,000	Rent Agreements

2.3 Non – compliance Laws, Rules, Regulations and Management Decisions

The following instances of non – compliance were observed

Reference to Laws, Rules and Regulations	Non – compliance

(a) Section 25(6)of the national gem and Jewellery Act, No. 50 of 1993	Even though a representative of a University or a research institution which actively engages in activities related to gem industry try should be appointed to the Board of Directors, action had not been taken accordingly.
(b) Public Enterprises Circular No PED/12 of 02 June 2003	
(i) Section 4.2.2	Even though the Governing Body of the Institute should hold monthly meetings in Order to evaluate how the Institute had achieved its objectives in the Action Plan , only 6 meetings had been held for the year under review.

- (ii) Section 5.1.2 Officers responsible for each activity in the Action Plan had not been identified.
- (iii) Section 5.1.3 Even though the Action Plan and the approved annual budget should be submitted to the Auditor General 15 days before the commencement of the year, the Institute had not taken action accordingly.

2.4 Transactions not supported by Adequate Authority

The following observations are made

- (a) The savings of Rs 12,245,839 as at 31 December 2013 from the Treasury provisions for the year under review had been retained in the General Deposit Account and utilized for the purchase made in the year 2014 without Treasury approval
- (b) Allowances of Rs. 901,150 had been paid to the employees of the Institute during the year under review for unavailed leave of the year 2012 without Treasury approval.
- (c) A sum of RS. 121,500 had been paid at Rs. 1,500 per month for the period from April 2007 to December 2013 for covering up duties of a Transport Officer post which was not included in the approved cadre only on the approval of the Governing Body of the Institute without the approval of the Department of Management Services.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2013 had resulted in a deficit of Rs 1,117,229 as compared with the deficit of Rs. 207,392 for the preceding year thus showing a deterioration of Rs. 909,837 as compared with the preceding year. The increase of contractual services and management expenditure by Rs. 3,628,890 and Rs. 642,901 respectively and the decrease of training course fees by Rs. 1,279,144 had been the main reasons for the deterioration.

3.2 Profitability

According to the information included in the financial statements presented, particulars of financial results for the year under review and the previous 4 years are given below.

	2013	2012	2011	2010	2009
	Rs	Rs	Rs	Rs	Rs
Income :-					
Government Grants	45,133,065	43,481,200	39,919,040	34,207,079	30,650,891

Income of the Institute	4,462,639	5,931,354	3,696,415	2,745,498	2,898,980
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	49,595,704	49,412,554	43,615,455	36,952,577	33,549,871
Expenditure	50,712,933	49,619,946	43,232,376	37,731,537	32,905,323
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Surplus /(Deficit)	(1,117,229)	(207,392)	383,079	(778,960)	644,548
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The following observations are made

- (a) Financial results of the year under review as compared with the year 2009 had deteriorated by 273 per cent within the period of 4 years.
- (b) Although a sum of Rs.45.1 million had been received as the Government contribution for the expenditure of the year under review, the total expenditure of the year amounted to Rs.50.7 million. Accordingly, 89 per cent of the overall expenditure of the Institute had been covered by Government grants.

3.3 Legal Cases initiated against the Institute

An employee of the Institute whose service was suspended due to not reported for duty without prior notice had Filed a case against the Institute in the Labour Tribunal

4. Operating Review

4.1 Performance

The following observations are made

- (a) Even though the Treasury had granted approval to implement the gem deposit exploration and assessment project during the period of 4 years from 2008 to 2011, the project had not been completed within that period and the project period had also not been extended. According to the project proposal exploration in 2 provinces should be completed per year. However Buttala and Wellawaya Divisional Secretariats Divisions in Monaragala District only had been covered during the period from 2007 to the year under review and 37 per cent of the annual provisions had been spent thereon
- (b) Although the methods of excavating by using environment friendly gem Mining technology had been identified by carrying out field inspections during March to July in the year under review, action had not been taken to make aware of the related parties about this method.
- (c) Development / Improvement of Training Activities

- (i) According to the Action plan of the Institute, it was planned to conduct 06 training programs during the year under review and to open a new training center in the Northern and Eastern Provinces but those have not been implemented, Similarly, a sum of Rs. 5.2 million estimated to be spent on human resources development had not been spent for the intended purpose.
- (ii) Although 24 and 9 students had registered for the manufacture of fashion Jewellery and fixing stones for jewellery respectively in the preceding year 200 students whatsoever had been registered in the year under review.
- (iii) Although the registered students for the courses commenced in the year under review itself had been 324, only 231 students had successfully completed the courses and that represented about 71 per cent of the registered students.

4.2 Management Inefficiencies

The following observations are made

- (a) A Senior Manager who had committed a fraud of gold and silver valued at Rs.2,395,749 had been removed from service without recovering the sum of Rs.1,495,745 recoverable in connection with that fraud and the outstanding motor vehicle loan granted to him amounting to Rs.56,250 and the interest thereon.
- (b) An agreement had been entered into with the Sri Lanka Institute of Development Administration on 12 June 2012 for Rs. 634,000 for the preparation of an Establishments Code for the Institute. Accordingly it had been stated that it should be completed within 3 months and liquidated damages of Rs. 500 per day should be recovered for delays. Even though 50 per cent advance of Rs. 317,000 had been paid on 31 May 2012 before entering into the agreement the Institute had Failed to get it done even by June 2014.

4.3 Idle and Under Utilized Assets.

The following observations are made

- (a) The high technical electric oven purchased on 04 July 2013 for Rs. 10,977,344 had not been utilized even by June 2014.
- (b) A set of loudspeakers purchased at Rs. 104,000 to play the daily National Anthem and to cover the important meetings had not been utilized even by June 2014.
- (c) An earth drilling machine had been purchased in the year 2007 at a cost of Rs. 2,309,013 and a sum of Rs. 15,270 had been spent in the year under review for

servicing the machine and a sum of Rs. 564,888 had been spent from 2007 to 2013 for the insurance cover. However, this machine had not been utilized during the year under review and action had not been taken to operate the machine in full capacity even in the previous years.

4.4 Transactions of Contentious Nature

The following observations are made

- (a) The minimum monthly bid for Rs. 600,000 in renting a building for the Head Office had been subsequently changed to Rs, 700,000. However, the Institute had negotiated the reduction of the second bid of Rs.727,488 per month to Rs.700,000 and accepted that bid. This rented building was not in conformity with the relevant specifications and as such. it was observed that the electricity connection regularly was disconnected when the research equipment air conditioners and office equipment were operated due to defects in the electricity connection
- (b) Even though a sum of Rs. 819,000 had been credited to a separate Fund Account from the interest recovered from the employees loans to grant loans to employees, loans amounting to Rs. 194,566 had been granted to employees in the year under review from the Government grants, without utilizing the Fund.
- (c) A Court case had been filed in the District Court of Kandy by a former Working Director against the then Chairman (in his private name) on the ground of violation of human rights, claiming for compensation of Rs. 5,000,000. Even though this case was not of an official nature, a legal fee of Rs. 219,600 had been paid by the Institute.

4.5 Apparent Irregularities

The following observations are made

- (a) An officer who had been a full-time Lecturer of a University had been recruited to the Gem Deposit Exploration and Assessment Project as a full time consultant on contract basis and a sum of Rs. 2,805,000 had been paid at Rs. 85,000 per month for the period from April 2011 to December 2013. In addition to that he had been provided with transport facilities to travel from residence to office.
- (b) Although transport charges of Rs. 25,060 and the entertainment expenses of Rs.20,000 had been incurred in respect of a field visit undertaken concurrently with the one day workshop related to gemmology and gem cutting in dusty any evidence in support of conducting such field visit was not made available to audit.

4.6 Weaknesses in the Implementations of Projects

An expenditure of Rs. 11,393,846 had been incurred for the Gem Deposit Exploration and Assessment Project from 2007 to the year under review. Out of that 57 per cent and 18 per cent had been incurred on salaries and overtime and full, rent and other expenses respectively. Only 25 per cent of the total expenditure had been incurred on the achievement of major objective and the project planned to be completed by the year 2011. had not been completed even by July 2014.

4.7 Personnel Management

The following observations are made

- (a) Even though the approved cadre in the managerial levels of the Institute as at 31 December 2013 had been 133, the actual cadre had been only 48. Accordingly the number of vacancies had been 85 and timely action had not been taken to fill those vacancies.
- (b) Setting of question papers for the written examinations held for recruitment of employees and checking the answer scripts are done by the 9 officers of the Institute themselves as such it was not established in audit that recruitments are made independently. According to the recruitment procedure a candidate should obtain more than 40 per cent marks at the written test and an average of more than 50 per cent marks. However selections had not been done accordingly.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan indicating the existing resources of the Institute, progress of operating results for the last 3 years, identification of persons who are responsible for each activity of the plan and the performance indicators of each year had not been prepared in terms of the Circular No. PED/12 of 02 June 2003

5.2 Budgetary control

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

5.3 Unresolved Audit Paragraphs

The following observations are made

- (a) According to the approved salary segment, the salary segment entitled to a Senior Manager is H.M 2.1 but the Director General had been placed in the maximum step of salary segment H.M 2.3 since 01 May 2009 without the approved of the Department of Managements Services. As a result an overpayment of Rs. 617,400 had been made to him up to 31 December 2013. Action had not been taken to recover that amount from that officer
- (b) In promoting 4 Management Assistants they had been placed several salary steps ahead of the salary segment they had been drawing and as such an overpayment of Rs. 806,700 had been paid to those officers.
- (c) Although the directives made by the Committee On Public Enterprises had been informed through the Parliament Series No. 119 of 2011, action had not been taken to rectify the irregular salary increases paid by the Institute and to place the officers in their former salary steps.

6. System and Control

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Chairmen of the Institute from time to time. Special attention is needed in respect of the following areas of control

- (a) Accounting
- (b) Procurement
- (c) Carrying out Researches
- (d) Payment of Salaries
- (e) Conduction Courses
- (f) Board of Survey
- (g) Implementation of Projects