Gem and Jewellery Research and Training Institute - 2015

The audit of financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 32(3) 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 Institute in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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 Auditing 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 auditor's judgement, 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 Institute'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 Basis 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 Gem and Jewellery Research and Training Institute as at 31 December 2015 and its financial performance and 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) Sri Lanka Public Sector Accounting Standard 01

Other Capital Grants amounting to Rs. 850,310 had not been disclosed in the statement of changes in equity.

(b) Sri Lanka Public Sector Accounting Standard 02

The value of 02 motor vehicles amounting to Rs. 6,390,000 that had been received from the Treasury in the year under review as a grant, had been shown in the cash flow statement as cash outflows for acquisition of assets.

(c) Sri Lanka Public Sector Accounting Standard 03

A motor vehicle had been revalued in the year 2014. As the cost and accumulated depreciation had not been eliminated, the balances of the Assets Account, and the Accumulated Depreciation Account had been overstated by Rs. 1,500,000 each. However, action had not been taken to rectify the error.

(d) Sri Lanka Public Sector Accounting Standard 07

A revalued motor vehicle had been disposed of in the year under review. The revaluation profit of the vehicle amounting to Rs. 4,500,000 should have been adjusted to the retained profit by eliminating it from the Revaluation Reserve Account. However, it had not been so done.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Assets should be depreciated on a systematic basis throughout its useful lifetime, but due to errors in computing the depreciation, the overall allocation for depreciation had been overstated by a sum of Rs. 3,142,066. Particulars are given below.

Description	Amount of Depreciation Rs.
Non-depreciated Assets for 2011-2014	(7,795,944)
Year under review - Depreciation undercharged	(4,461,939)
- Depreciation overcharged	14,650,330
Further depreciation of assets fully depreciated.	749,619
	3,142,066

(b) The stock of gems being used for training courses valued at Rs. 399,006, had been accounted under fixed assets without being assessed.

(c) The value of the stock of gold and silver received in the year 1999 as a grant had not been brought to account. The actual stock had not been disclosed in the accounts as the calculated loss of Rs. 647,782 had been deducted from the stock as the said stock had been misplaced.

(d) Instead of accounting for the final stock of the consumer goods of the year under review by carrying out a physical computation, the final stock of the preceding year amounting to Rs. 833,428 had been brought to account as the final stock of the year under review. A number of 735 items of gems and other consumer goods of the Gemology Division, had not been calculated and included in the stock of consumer goods. Furthermore, research instruments costing Rs. 300,916, and 03 mobile phones in obsolete condition valued at Rs. 88,870 that should have been shown as fixed assets, had been included in the stock of consumer goods.

(e) A sum of Rs. 70,225 directly credited to the Bank in 13 instances, had been shown in Bank Reconciliation Statements area a period of 02 years without being identified and accounted for.

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

The following instances of non-compliances with Laws, Rules, Regulations, and Management Decisions were observed.

Reference to Laws, Rules, Regulations, and Management Decisions	Non-compliance
(a.) Paragraph 6 of the Gazette, No. 882 of the Democratic Socialist Republic of Sri Lanka, dated 28 July 1995.	Even though 05 members should have been appointed for the Board of Directors, only 03 members had been appointed for the year under review.
(b.) Section 11 of the Finance Act, No. 38 of 1971, and Public Enterprises Circular, No. PED/25, dated 29 July 2004.	A sum of Rs. 3,805,457 had been invested in the fixed deposits without approval of the Minister of Finance.

Section 13 (8)	The Governing Body had not considered the Audit Reports issued in terms of Section 13(7)(a) for the year 2014 and preceding years, and informed to the Auditor General of the steps those they proposed to take.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2015 had been a deficit of Rs 7,481,616 as against the surplus of Rs.2,642,900 for the preceding year thus showing a deterioration of Rs. 10,124,516 in the financial result as compared with the preceding year. The aforesaid deterioration of the financial result had been mainly attributed to the increase in the personnel remuneration, and maintenance expenditures by sum of Rs. 8,263,784, and Rs. 1,924,183 respectively.

An analysis the financial results of the year under review and 04 preceding years, revealed a financial surplus in the years 2011, and 2014, whereas a deficit was observed in the years 2012, and 2013 and the year under review. Nevertheless in considering the employee remuneration, and the depreciation on the non-current assets, the contribution of the Institute had slightly deteriorated in the year 2013 as compared with the preceding years, but it had gradually improved in the other years. As such, the contribution had increased by Rs. 49,715,257 representing 26 per cent in the year under review as compared with the year 2014.

4. Operating Review

4.1 Performance

The main objective of establishing the Institute was to facilitate training and research activities in order to promote and develop the gem and Jewellery industry.

The following observations are made on the achievement of the aforesaid objectives.

(a) Even though 20 years had elapsed since inception of the Institute it was observed that the Institute had failed to be actively involved in the achievement of the said objectives. As such, the contribution of the Institute in extracting the gems deposits, identified through surveys and researches, for the economic development of the country, was at a minimum level.

(b) The following matters were observed in connection with the performance of the training and research activities carried out in the year under review.

(i) Even though places had been made to conduct 10 fee-levying courses in the year under review, 03 of those courses had not been conducted. Even though plans had been made to train 200 students for free in the first half year, but no student had been trained. Even though the training of 190 students for free in the latter half of the year under a new plan in line with the skills development programme of the Ministry, only 60 students had been trained.

(ii) Even though plans had been made to test 500 samples of mineral samples in connection with the project for exploration and assessment of gem mines at 10 Divisional Secretariats Divisions in *Monaragala* and *Badulla* districts, only 245 samples representing 43 per cent had been tested.

(iii) Even though it had been planned for preparing 10 maps under in GIS and Remote Sensing studies only 02 maps had been completed.

(iv) Even though provisions Rs.1,000,000, and Rs. 1,500,000 had been made for developing a heat treatment / diffusion methodology to improve colour and clarity of Tourmaline and *Kuruvinda* gems respectively no activity whatsoever had been carried out in that connection.

4.2 Underutilization of Funds

Even though capital grants amounting to Rs. 153,789,130 had been received from the year 2005 up to the year under review for purchasing assets and development activities, only a sum of Rs. 127,387,161 had been spent therefrom, and a sum of Rs. 26,401,969 had remained underutilized without being incurred.

4.3 Management Activities

The following observations are made.

(a) As advances had not been given based on estimates made on requirements, 08 instances in which, advances exceeding the expenditure ranging from 122 per cent to 467 per cent had been granted, were observed.

(b) Even though a sum of Rs. 381,400 had been spent on repairing 25 gem cutting machines without a preparing detailed estimate, the detailed bills on the repairs carried out that had been obtained.

(c) Action had not been taken to recover the sum of Rs. 1,495,745 in respect of the fraud involving gold and silver valued at Rs. 2,395,749 committed by a senior manager in the year 2007, along with Rs. 56,250 of motor vehicle loan paid to that officer and the interest thereon.

4.4 Uneconomic Transactions

As amendments for the Establishments Procedure sent by the Sri Lanka Institute of Development Administration prepared and sent on 25 October 2012, had been sent after a delay of nearly two years it had referred to value to. As such, the advance of Rs. 317,000 paid thereon had become fruitless.

4.5 Idle and Underutilized Assets

The following observations are made.

(i) The high temperature electric oven purchased at a cost of Rs. 10,977,344 in the year 2013 for researches relating to heat treatments of *Gevuda*, had not been used for any activity even up to June 2016. The warranty period of the oven had expired, and after inspection, it was observed that the oven could not be utilized for the relevant purposes.

(ii) Even though the earth drilling machine had been purchased at a cost of Rs. 12,309,013 in the year 2007, and a sum of Rs. 910,725 had been spent on insurance up to the year under review, the machine had not been productively utilized even by 31 October 2016.

(iii) The rented building of the Center in Ratnapura had not been effectively utilized, and a considerable space at the ground floor and the second floor had remained idle without being utilized.

4.6 Staff Management

The following observations are made.

(a) A female officer recruited in the year 2010 to the Class II of the Management Assistant Service contrary to the scheme of recruitment, had been overpaid a sum of Rs. 78,720 as salary increment without being made permanent in the service and despite her failure to pass the Efficiency Bar examinations.

(b) As an officer had been placed on a salary step higher than the prescribed step without approval of the Department of Management Services and as such salaries amounting to Rs. 619,646 had been overpaid to him for the period from May 2009 to July 2015.

5. Accountability and Good Governance

5.1 Presentation of Accounts

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the financial year. However, the financial statements of the year under review had been presented to the Auditor General after a delay of 78 days on 17 May 2016.

5.2 Procurement Plan

A Procurement Plan had not been prepared properly in respect of a sum of Rs. 22,170,000 given for the acquisition of fixed assets.

5.3 Corporate Plan

A Corporate Plan had not been prepared in terms of Section 5 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003.

5.4 Action Plan

A proper methodology had not been established to examine the progress in achieving the targets set out in the Annual Action Plan.

5.5 Internal Audit

The following observations are made.

(a.) An Internal Auditor responsible for the Chairman of the Institute had been appointed for internal auditing, but a permanent audit staff had not been appointed in order to assist him. Training programmes had not been adequately conducted for the Internal Auditor to improve his professional knowledge on auditing.

(b.) Inspections on the research activities, recruitments, and stores affairs which had been planned and resources had been allocated for through the Internal Audit Programme, had not been carried out.

5.6 Budgetary Control

In comparing the budgeted income and expenditure with the actuals, variances ranging from 16 per cent to 213 per cent were observed in respect of 08 items that had been properly examined. Hence, it was observed in audit that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
(a.) Accounting	(i) Failure to prepare accounts in accordance with the accounting concepts, and Standards. (ii) Journal Notes had not been certified by the Accountant. (iii) Failure to compute the depreciation on fixed assets correctly.
(b.) Staff Administration	(i) Inefficient internal control on arrival, departure, and leave of the officers. (ii) Recruitment of officers without approval. (iii) Failure to recover salaries overpaid to certain officers.
(c.) Procurement	Failure to make purchases with a Procurement Plan in a timely manner.