

## **National Gem and Jewellery Authority - 2015**

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The audit of Financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 21(2) 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**

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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**

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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 the 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 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 Basis for Qualified Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2015 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**

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#### **2.2.1 Sri Lanka Accounting Standards**

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##### **(a) Sri Lanka Accounting Standard 16**

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Even though 14 vehicles of zero carrying cost amounting to Rs.36,310,655 had been further engaged in running activities by the Authority, action had not been taken to revalue them in order to present a fair value of the said vehicles.

##### **(b) Sri Lanka Accounting Standard 17**

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The value of lease installments amounting to Rs.2,228,028 paid for 3 vehicles purchased on lease basis had been brought to account instead of accounting their fair values.

##### **(c) Sri Lanka Accounting Standard 37**

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A lawsuit had been instituted against the Authority requesting a compensation of Rs.500,000 by an employee of the Authority. Required provisions had not been made for it in the financial statements and lawsuits instituted against the Authority had not been disclosed in notes to accounts.

#### **2.2.2. Accounting Deficiencies**

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The following observations are made.

- (a) CCTV Camera System valued at Rs.195,000 purchased in the year under review had been brought to account as Revenue expenditure instead of accounting as Fixed Assets.
- (b) The value of two vehicles obtained on lease basis several years ago and currently in use had not been stated in the statement of financial position.

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

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The following instances of non-compliance were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions.</b>	<b>Non-compliance</b>
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(a) Section 18(1) of the National Gem and Jewellery Authority Act, No.50 of 1993	Even though it had stated “when a person has acquired gemming rights by way of an auction, the price paid at such auction by such person shall be deemed to include a royalty in lieu of any gems that may be found on such land.”, the Authority had not decided the percentage of such royalty. Even though an income amounting to Rs.352,774,990 approximately earned by auctioning Bogawanthalawa and some other lands in the year under review, the Treasury had not been given any fraction of royalty.
(b) The Finance Act, No.38 of 1971	
(i) Section 11	A sum of Rs.1,317,401,767 had been invested in Treasury Bills and Fixed Deposits without obtaining the approval of the Minister of Finance.
(ii) Section 13(8)	Steps proposed to take after taking into consideration the Audit Reports issued for the year 2014 and preceding years by the Board of Control in terms of Section 13(7)(a) had not been presented to the Auditor General.
(c) Sections 1.10.1 and 1:11:1 of Chapter 11 of Establishments Code of Democratic Socialist Republic of Sri Lanka	Even though a request should be made to the Department of Management services through the Secretary to the Ministry to backdate an appointment, it had not been done so in backdating the appointment of the post of Assistant Director (Valuation / Gemologist). Further, if the seniority of the officer appointed before that is changed due to backdating, it should not be done. Contrary to that the Authority had backdated the appointment of the above post.
(d) Section 01 of the Department of Management Services Circular No.02/2015 dated 09 December 2015.	Even though the bonus payable per employee for the year was Rs.13,500, bonus of Rs.55,000 per employee had been paid in the year under review. Accordingly, a sum of Rs.10,200,000 had been overpaid.

- (e) Paragraph 3.2 of Public Enterprises Circular No. PED 1/2015 of 25 May 2015. In providing additional fuel to the officers who were entitled official vehicles, fuel amounting to Rs.338,887 had been provided for 7 officers through fuel orders of the Authority without the approval of the Board of Directors and Secretary to the Ministry.
- (f) Public Enterprises Circular No. PED 56 of 27 January 2011. Even though a sufficient amount should have been kept in hand for the working capital requirements for the next 6 months and all additional balance money should be transferred to the Consolidated Fund, it had not been done so.
- (g) Internal Circular No. NGJA 1/1 dated 12 January 2015. Even though the exporting gems under service fee waiver facility had been suspended, contrary to that, the Authority had given permission to export gems under service fee waiver facility. Accordingly, income from service charges amounting to Rs.28,500,000 approximately had been deprived of in the year under review.

#### **2.4 Transactions not supported by appropriate authority**

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In paying incentives for the year under review, incentives totalling Rs.19,063,370 had been paid to all employees without the approval of the Department of Management Services and the Board of Directors as equal to the gross salary of two months (including allowances). Further, a sum of Rs.4,740,075 had also been paid without an approval of the Department of Management Services for all the employees of the Authority for unavailed leave. Likewise, incentives amounting to Rs.12,481,405 and a sum of Rs.4,611,375 for un-availed leave had been paid without the approval in the preceding year, as well.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the Financial Statements presented, the financial result of the Authority for the year under review had been a pre-tax net profit of Rs.246,984,714 as compared with the corresponding net profit of Rs.314,942,235 for the preceding year, thus indicating a deterioration of Rs.67,957,521 in the financial result for the year under review. Even though the income earned from auctioning lands had been increased by Rs.216,063,564 in the year under review, decrease of the income from sale of Gems and export service charges by Rs.199,362,410 and increase of expenditure of international exhibition by Rs.67,033,175 had mainly attributed to the deterioration of the profit in the year under review.

#### **3.2 Analytical Financial Review**

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The following observations are made.

- (a) In analyzing the financial results of the Authority for the preceding years, a significant increase had been indicated in the net profit after taxes from the year 2013 to the year under review (except the year 2015). In taking into consideration employees' remunerations, government taxes and depreciation on non-current assets, the entire contribution of the Authority had been Rs.273,309,778, Rs.512,421,306 and Rs.492,320,370 respectively. Accordingly, the contribution in the year 2014 had increased by 87 per cent as compared with the year 2013, but such increase in the year under review was 80 per cent.
- (b) No. of employees of the Authority had been increased within the range from 12 per cent to 28 per cent since the year 2012 and the payment of remuneration to employees had also been continuously increased. Even though the payment of employees' remuneration amounted to Rs.114,048,303 in the year 2012, it was Rs.215,451,445 in the year under review, showing an increase of 89 per cent as compared with the year 2012.
- (c) Expenses related to 6 objects had been abnormally increased by Rs.84,250,063 as compared with the preceding year and the percentage of increase of such expenses ranged from 39 per cent to 691 per cent.

#### **4. Operating Review**

##### **4.1 Performance**

The following observations are made.

- (a) Even though the prime objective of the establishment of the Authority in terms of the National Gem and Jewellery Authority Act, No. 50 of 1993 was for development, regularization and promotion of Gem and Jewellery industry, exportation of Gem and Jewellery by 13 per cent and issuance of licenses by 8 per cent had been decreased in the year under review as compared with the year 2014.
- (b) Physical progress of seven activities of the Authority according to the Action Plan had been at the level of 0 per cent to 96 per cent.
- (c) Even though Assaying and Hallmarking Division had estimated an income of Rs.13,800,000 according to the Action Plan by testing 27,025 items, only an income of Rs.3,563,677 had been earned by issuing actual test reports for 9,605 items. Accordingly, physical progress and financial progress had been at minimum levels of 33 per cent and 26 per cent respectively. This was a decrease of about 24 per cent as compared with the income of the preceding year.
- (d) The Authority had incurred a preliminary expense of Rs.2,900,874 for the establishment of an Assaying laboratory and a Gem testing laboratory at Gold Centre in Colombo without an approval of the Ministry and the Board of Directors and not included in the Action Plan and Budget Proposals in the year 2014. The Gem testing laboratory and the Assaying laboratory had earned income of Rs.44,890 and Rs.347,077 respectively for the period from September 2014 to 31 December 2015.

Accordingly, the total income of these two laboratories was Rs.391,967 during the said period, and the rent for the relevant building had been Rs.1,478,400 and as such, the unrecoverable expenditure was Rs.1,086,433.

- (e) Even though budgetary provision of Rs.13,000,000 had been made for updating gem-mined lands damaged and rehabilitation of the gem-mined lands abandoned in the year under review, any activity in connection with it had not been exercised.

#### 4.2 Management inefficiencies

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The following observations are made.

- (a) Gazette Notifications had not been publicized and made aware of the general public on license charges, export service charges, Gem and Jewellery testing fees and royalty recovered by the Authority.
- (b) Even though the Authority is empowered to grant the rights for external parties to gemming in State owned lands through auctioning gem lands in terms of Section 18(1) of the Act, contrarily the license for gemming in connection with the pilot project of gemming of Bogawantalawa had been obtained in the name of the Authority.
- (c) Even though in terms of the Sections 18(2) and 18(4) of the National Gem and Jewellery Authority Act, the gemstones found from gemming projects should be acquired by the Authority and a portion of the money received from sale of such gemstones should be allocated as a royalty, a sum of Rs. 528,786,392 had been earned through the entire Heraniyawaka, Bogawanthalawa and Seethawaka River Project (Stage one and Two) and paid a sum of Rs.215,204,760 to external parties, but any amount whatsoever had not been remitted to the Treasury as the royalty.
- (d) In distributing profits between the private entrepreneur and the Authority who joined the project in the implementation of gemming project, that percentage should be decided on a logical basis with a fair transparency for every project. Nevertheless in comparing the following four projects, percentage of distribution of profits had been decided as to personalize to each entrepreneur contrary to that and as such, it was problematic in audit.

Project	Percentage of profit belongs to the Authority	Profit earned by the Authority	Percentage of profit belongs to the entrepreneur	Amount paid to the entrepreneur
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		Rs.		Rs.
Seethawaka (Stage 1)	54.50	135,868,345	25.50	63,571,428
Seethawaka (Stage 2)	73.25	128,247,450	6.75	11,818,025
Heraniyawaka	30.0	15,948,112	51.0	27,111,790
Bogawanthalawa	30.0	9,031,670	65.0	19,568,618

- (e) Even though a sum of Rs.92,948,578 had been granted to a private Institution for the construction of a laboratory in the year 2009, it had not been fulfilled even up to the date of Audit, July in 2016. Even though the Board of Control had decided to take over such money back to the Authority, such activities had shown a slackness.
- (f) Even though in deciding the export selling price of precious Gems it should have been decided by identifying each gemstone separately, it had not been done so and prices had been decided as a lot and exported. As a result, the correct price of the stock of gemstone had not been estimated and their sale prices had been undervalued and as such, a risk of decreasing the income from service charges recoverable to the Authority was observed.
- (g) As the Computer software system purchased for stock purposes by the Authority by paying a sum of Rs.1,485,680 in the year 2006 had been defective, manual registers had been maintained instead. It was observed that such information was not accurate, as these registers had not been updated as well.
- (h) Even though an income of Rs.3,200,000 had been estimated in participating 16 exporters representing the Authority in the World Expo exhibition, only an income of Rs.400,000 had been received by the Authority. But a sum of Rs.990,000 had been spent for the combined and incidental allowances of the officers participated in that representing the Authority.

#### **4.3 Transactions with contentious nature**

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- (a) The expenditure incurred by the Divisional Secretary of Dehiowita amounting to Rs.1,107,257 for the ceremony held to distribute benefits of Seethawaka Ganga Project had been reimbursed by 12 Cheques under the financial limit of the Assistant Director (Enforcement and Regional Development) without a certificate of the Director (Finance) by the Regional Office at Eheliyagoda without being reimbursed from the Head office of the Authority.
- (b) A sum of Rs.17,420,000 to disabled persons and Samurdhi beneficiaries of the area and a sum of Rs.16,246,121 to religious places and Pradesheeya Sabhas selected without a transparency had been paid out of the income from the second stage of the Seethawaka River Gemming project.

#### **4.4 Idle and Underutilized Assets**

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Fixed Assets amounting to Rs.93,573,214 had been purchased to the Division of Assaying and Hallmarking in the year under review and the total Assets as at 31 December 2015 was Rs.123,191,247. Assets valued at Rs.96,942,288 of it had remained idle even by February 2016.

#### **4.5 Personnel Administration**

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The following observations are made.

- (a) Twelve Management Assistants and 06 Field Assistants had been recruited without an approval of the Department of Management Services.
- (b) Fifteen Employees recruited on contract basis for the post of Mechanical Mine Supervisor had been awarded appointments by changing the designation as Field Assistant (Casual) without an approval of the Department of Management Services.
- (c) In Addition, the other employees recruited for the post of Field Assistant had been engaged to perform the duties at the Head Office instead of engaging them in field work.
- (d) An unqualified person had been recruited for the post of Management Assistant according to the Scheme of recruitment of the Authority and Salaries and allowances amounting to Rs.380,636 had been paid in the year under review.
- (e) Certificates of educational and professional qualifications presented by the officers of Authority had not been proved from the relevant Institutes as to whether they were genuine.
- (f) Even though the performance should be appraised annually in awarding annual salary increments, trainings and promotions to Officers of non-executive grade, performance appraisal of any officer had not been made after the year 2011.
- (g) Even though the appointments of the officers of the Sri Lanka Administrative Service should be made by the Public Service Commission and an officer from the Administrative Service had been appointed as the Director General of the Authority by the Secretary to the Ministry of Mahaweli Development and Environment, contrary to it, subject to the covering approval of the Public Service Commission on secondment basis and the approval of the Public Service Commission had not been obtained even by July 2016.
- (h) The cost per employee had been increased by about 66 per cent by the year under review as compared with the year 2011.

## **5. Accountability and Good Governance**

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### **5.1 Corporate Plan**

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The following functions in Section 14 of the National Gem and Jewellery Authority Act, No.50 of 1993 had not been included into the Corporate Plan.

- (i) To train and promote persons especially on heat treatment and gem cutting for the development of the industry.
- (ii) To take necessary steps to generate confidence in the gem and Jewellery industry among prospective buyers;
- (iii) To prevent unlawful gemming and the unlawful removal of gems from Sri Lanka;
- (iv) To provide the necessary liaison among the Government Departments in order to promote gem and jewellery industry in Sri Lanka;



## **5.2 Action Plan**

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A proper arrangement to check the progress of fulfilling targets of the annual Action Plan had not been made.

## **5.3 Internal Audit**

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The following observations are made.

- (a) An Independent Cadre required to perform Internal Audit functions had not been attached and appropriate training programmes had not been executed for the improvement of professional knowledge in auditing of internal audit personnel.
- (b) Even though the Internal Auditor should bear impartial, fair and unbiased attitudes personally, it was observed that acting the Internal Auditor of the Authority as the Treasurer of its Welfare Society and Valuer of gemstones at rough gem auctioning and supervisory activities in opening of bids was a barrier to the independence of Internal Audit.
- (c) Even though it had targeted to audit the income earned from auctioning of gem lands and income of gem sales (Special projects), relevant audits had not been done.

## **5.4 Procurements and contract procedure**

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Even though an expense amounting to Rs.93,245,566 had been incurred for purchasing equipment for the laboratory of assaying, legal agreements had not been entered into with the suppliers selected for the purpose. Further, as quotation of one bid had been deceitfully altered, a sum of Rs.771,600 had been overpaid.

## **5.5 Budgetary Control**

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Variations ranging from 20 per cent to 472 per cent in ten items of estimated income and expenses and actual income and expenses of the budget were observed. A sum of Rs.2,854,498 had been earned from two sources of income which were not included in the budget. Only the expenses had been stated for some items. Accordingly, it was observed that the budget had not been prepared on an realistic basis and it had not been made use of as an effective instrument of management control.

## **5.6 Unresolved Audit Paragraphs**

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The following observations are made.

- (a) As the payment of salary since May 2013 had been made by determining the salaries in placing 8 salary steps ahead in making recruitment to the post of Director (Human Resource and Administration). The overpaid salaries amounting to Rs.597,193 had not been recovered even by March 2016.

- (b) An officer over the age of 60 years had been recruited as an Advisor under contract basis only on the approval of the Board of Control from October 2012 without an approval of the Cabinet of Ministers contrary to Section 9.1 of Chapter 11 of the Establishments Code. Monthly allowance and other incentives amounting to Rs.867,143 in the year under review and Rs.1,733,143 in the preceding two years had been paid to him.
- (c) Applications had been called for by publishing a newspaper advertisement for making recruitment for the post of Director (Export services / Export marketing) and the relevant interview had been conducted on 03 January 2014. Despite there were three qualified candidates with required qualifications, relevant appointment had been awarded to a person who had not qualified and salaries and fuel allowance amounting to Rs.2,834,838 had been paid by the year under review.

### **5.7 Fulfillment of environmental and social responsibilities**

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Large scale environmental damages had been observed from mechanical gem mines and as the rehabilitation activities of such mine pits were weak environmental as well as public health had been caused serious damages. The risks of inability to use Gem mines close to paddy fields for cultivation purposes had also been arisen. It was also observed that there was a risk of earth slips in Ratnapura District due to tunneled mines.

### **6. Systems and Controls**

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

#### **(a) Accounting**

Control accounts had not been maintained for Regional Offices and narrations in the journal entries had not been properly stated.

#### **(b) Vehicle control**

The original running charts had not been presented monthly to audit and reports of running cost of vehicles for each vehicle had not been prepared.

#### **(c) Human Resource Management**

It was frequently observed that recruitments and promotions had been made contrary to Management Services circulars and time and money spent unnecessarily as lawsuits had been instituted against the Authority due to informal termination of service. In assigning the employees for office and field duties, attention had not been paid for the qualifications of employees.

**(d) Control of operating activities**

**(i) Organization of International Exhibitions**

It was observed that incurring expenses exceeding the approved budgetary limits and leaving the unqualified officers and officers abroad outside the subject of promotional activity for organizing activities of the exhibitions.

**(ii) Land auctions and Gem Auctions**

The liaison and legal activities required for getting freed the state lands which have gem for gemming had been at a weak level.

**(iii) Exportation of Gem**

As the values of gemstones had been under-estimated on a large scale in exporting gem, the income earned from service charges had decreased.

**(e) Stock Control**

Shortages and excesses had existed in the Stock Ledger balance and the physical stock. Even though the Stores Division should have been operated under an Accountant of the Accounts Division, purchase of goods, auctioning the damaged items of the Authority and maintenance of Stores Division had been carried out under the Supplies Manager. Therefore it was observed that the internal control over Stock control had remained at a weak level.