

National Gem and Jewellery Authority-Lanka Gemological Laboratory (Private) Limited – 2017/2018

The audit of the affairs of the National Gem and Jewellery Authority - Lanka Gemological Laboratory (Private) Limited ("the Company") for the period 01 April 2014 to 31 March 2018 was carried out under my direction in pursuance of provision in article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. As per the Section 150(1) of the Company Act No.07 of 2007, the financial statements of the Company for the year 2015, 2016, 2017 and 2018 had not been submitted even as at the date of this report. My comments and observations which I consider should be furnished to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium size Entities (SLFRS for SMEs) and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

As per the Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, draft annual report and accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, financial statements for the year 2015, 2016, 2017 and 2018 had not been submitted even as at the date of this report.

2.2 Maintenance of Books and Accounts

The following books and records which should be maintained by the Company, for the period of 01 April 2014 to 31 March 2018, had not been maintained by the Company.

- (i) Cash/Bank Books.
- (ii) Ledger Accounts.
- (iii) Journals.
- (iv) Bank reconciliation statements.
- (v) Relevant registers.
- (vi) Payment vouchers.

2.3 Assets and Liabilities

The details of assets, liabilities, income and expenditure indicated in the financial statements as at 31 March 2014 prepared by the company are as follows.

Item in the Financial Statements	Value
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<u>Assets</u>	Rs.
Current Assets	139,006,695

Total Assets	139,006,695
	=====
<u>Equity</u>	
Capital & Reserves	124,178,950
<u>Liabilities</u>	
Current Liabilities	14,827,745

Total Equity & Liabilities	139,006,695
	=====
Total Income	-
Total Expenditure	257,271

Deficit	(257,271)
	=====

2.4 Lack of Evidence for Audit

The following observations are made.

- (a) The fixed deposit renewal notice for the period ended 28 March 2016 to 28 June 2016, balance confirmation for cash in hand amounting to Rs.862,904 as at 31 March 2018 and Supporting documents for cash withdrawal from bank account amounting to Rs.59,000 and Rs.1,200,000 respectively had not been submitted to audit.
- (b) Approvals details of expenditure and other related documents for three foreign tours had not been submitted to audit.

3. Operational Review

3.1 Performance

3.1.1 Operating and Review

The Company had been established in the year 2008. Although the following objectives had been shown in the Paragraph No 4 of the Articles of Association of the company, any

operational activity had not been started up to now and hence the Company had not been achieved its objectives .

- (i) To establish and operate in Sri Lanka a laboratory of international standards for testing and certifying gems, precious and semi precious stones, synthetic stones, metals, minerals, jewellery and any other materials or things whatever and to issue opinions, valuations certificates, reports etc.
- (ii) To ensure the independence of the said laboratory in its operations so as to enable the local and international community to repose confidence in the said laboratory as an institution which functions scientifically, fairly and impartially.
- (iii) To promote strengthen, encourage and develop the gem and jewellery industry in Sri Lanka and the ethical conduct of business in the said industry.
- (iv) To conduct educational and training courses and research programmes etc. on testing of gems, precious and semiprecious stones, synthetic stones, metals, minerals, jewellery and of any other materials or things whatever.
- (v) To carry out research into and develop new techniques, systems, machinery, equipment, tools and implements for the gem and jewellery industry.
- (vi) To establish and develop reciprocal relations with fraternal organizations and to work in collaboration, co-operation and in association with such organizations.

3.2 Management Activities

The following observations are made.

- (a) Although the approval had been granted by the Cabinet Memorandum No. 16/1589/704/040 dated 16 August 2016, to implement the following recommendations, actions had not been taken by the Company for implementation of those recommendations.
 - (i) To dissolve the company, established in May 2008 in accordance with the provisions of the companies Act No. 07 of 2007.
 - (ii) To re-transfer the funds, which transferred to the company and interest, to the fund of National Gem & Jewellery Authority.
 - (iii) To establish an internationally recognized, ultramodern high-tech gemological laboratory under the Act No. 50 of 1993 of National Gem & Jewellery Authority by using above transferred funds.

- (b) Even though the bank balance as at 25 September 2014 was Rs.714,335 a sum of Rs.900,000 had been withdrawn by a cash cheque. Hence, a sum of Rs.185,665 had been over drawn without a board approval.
- (c) Actions had not been taken by the company to register for income tax or pay income tax up to the date of audit. The payable Balance of Income tax and Withholding tax amounting to Rs.14,619,695 and Rs.4,784,831 respectively as at 31 March 2014 had been remained without being settled.
- (d) A sum of Rs.137,898,698 invested in a fixed deposit on 03 September 2014 for one year period, had been withdrawn before 21 days of Maturity without obtaining the Board approval and had been transferred to the current account.

Everthough the covering approval of the Board of Directors had been obtained to reinvest Rs. 120 million in fixed deposits, only a sum of Rs. 110 million had been reinvested at the same date. However out of the amount transfered to the current account a sum of Rs. 24 million had remained idle over a period of 4 years.

- (e) According to the financial statements for the year 2014, the payable amount of audit fees as at 31 March 2014 was Rs.208,050 However a sum of Rs.218,706 had been paid to the audit firm after the balance sheet date.
- (f) The Chairman and the Board of Directors of the Company had attended to 3 official foreign tours in the year 2014 and a sum of Rs. 2,939,375 had been incurred as expenses thereon. The following observations were made in this regard.
 - (i) The approval of the treasury and secretary to the line Ministry had not been obtained by the directors other than the chairman and one director for the above tours.
 - (ii) The tour programs had not been submitted to audit hence the objectives of the tours could not got revealed.
 - (iii) According to the presidential secretariat circular No CA/1//16/1 dated 9 July 2010 a report should be submitted by officers within 2 weeks after the tour by using the format mentioned in the Circular. But prescribed reports related to the above foreign trips had not been submitted by the officers of the Company.
 - (iv) According to the sub chapter 11.1 of the chapter XV, of the Establishment Code, all officers should travel by economy class when travel by air, contrary to this requirement the chairman had traveled by business class when traveled to German and Thailand. As a result a sum of Rs.257,699 had to be over paid for those 2 trips.

- (v) A total sum of Rs.1,287,948 had been paid from the cash in hand to 3 Directors, as allowance and charges relating to 3 foreign tours and the said payments had not been confirmed by relevant receiptents.
- (vi) The charges including combine and incidental allowances, air fares and visa fees amounting to Rs.369,440 and Rs.1,032,887 relating to the tours to Thailand and Germany had been paid by the National Gem and Jewellery Authority on behalf of the Chairman and a Director of the Company.