

## **Gem and Jewellery Research and Training Institute - 2017**

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The audit of financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 and the Statement of Financial Performance, Statement of Changes in Equity, 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 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**

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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**

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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 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 performance 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 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 Entity's preparation and fair presentation of the financial statements in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 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 Gem and Jewellery Research and Training Institute as at 31 December 2017 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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In terms of Section 119 of the standard, the prior year adjustments amounting to Rs. 6,054,415 had been stated as the adjustment related to the period instead of being adjusted to the balance brought forward from the preceding year in the statement of changes in equity.

##### **(b) Sri Lanka Public Sector Accounting Standard 02**

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- (i) An amount of Rs. 473,480 of lease amount that written off in respect of a land that should be added to the cash flows arisen through operating activities had been stated by deducting and the value of gratuity expense for the year amounting to Rs. 1,025,423 had not been adjusted to the cash flow statement.
- (ii) The previous year adjustments that adjusted in the comprehensive part in the Statement of Financial Performance of Rs. 6,054,475 and the revaluation surplus that adjusted to the Statement of Changes in Equity of Rs. 186,456 had not been adjusted to the Cash Flow Statement.
- (iii) Instead of stating an amount of Rs. 4,115,848 received from National Science Foundation during the year under review and an amount of Rs. 184,149 spent for the experiments from that money under the financing activities in the Cash Flow Statement separately, the balance amount of Rs. 3,931,699 had been stated under working capital movements.

(iv) Adjustments of Rs. 4,214,000 that done through journal entries for 03 balances stated under the Non Current Assets in the Statement of Financial Position had been stated under working capital movements instead of adjusting into the operating profit in the Cash Flow Statement.

(c) **Sri Lanka Public Sector Accounting Standard 03**  
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Although the cost of gems that used for the training courses of Rs. 519,800 that identified as expenditures in previous years had been identified as assets from the year under review, this change in the accounting policies had not been disclosed in the financial statements as per Paragraph 34 of the Standard.

(d) **Sri Lanka Public Sector Accounting Standard 07**  
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As useful life time had not been reviewed annually in respect of non- current assets, the assets costing Rs. 45,198,453 had been fully depreciated but are being further used. Accordingly, the estimated error arisen had not been rectified as per Sri Lanka Public Sector Accounting Standard 03.

**2.2.2 Accounting Deficiencies**  
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The following observations are made.

- (a) Depreciation for the year under review of Non Current Assets had been understated by Rs. 1,045,231.
- (b) Gems valued at Rs. 18,608 that received as donations during the year under review and consumable items valued at Rs. 237,590 had not been taken into the financial statements.
- (c) The building rent of Rs. 248,388 and the fixed deposit interest income of Rs. 8,851 in related to the year under review had been taken excessively to the financial statements.
- (d) Refundable security deposit of Rs. 10,000 that taken from officers had been taken into the financial statements as an income related to the year under review without accounting under refundable deposits.

**2.2.3 Unexplained Differences**  
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Even though the sum that should be reimbursed from the National Gem and Jewellery Authority from the operating expenditure of the Gem designs and Training of Technical Officers Project was Rs. 5,936,817 according to the documents of Gem and Jewellery Research and Training Institute, there was an unexplained difference of Rs. 717,662 as that amount was Rs. 6,654,479 according to the financial statements.

#### 2.2.4 Lack of Evidence for Audit

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Payment vouchers and confirmation documents related to Rs. 841,241 that spent in respect of going abroad of 05 officers had not been presented to the audit.

#### 2.3 Accounts Receivable and Payable

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Following observations are made.

- a) The loan balances amounting to Rs. 123,497 recoverable from the employee who resigned from the service on 30 June 2017 had not been recovered even by the year under review.
- b) The deposits refundable amounting to Rs. 24,000 received from 12 students who were completed the courses had not been refunded despite 04 years elapsed.
- c) Although an amount of Rs. 6,654,479 had been stated in the financial statements as receivables from National Gem and Jewellery Authority, balances payable to this Entity according to the financial statements had not been stated.

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

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The following non-compliances with laws, Rules, Regulations and Management Decisions were observed.

| <b>Reference to Laws, Rules and Regulations</b>                             | <b>Non-compliance</b>                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----                                                                       | -----                                                                                                                                                                                                                         |
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka |                                                                                                                                                                                                                               |
| (i) Financial Regulation 104 and 105                                        | Action had not been taken in respect of 02 vehicle accidents as per Financial Regulations                                                                                                                                     |
| (ii) Financial Regulation 396                                               | Action had not been taken as per Financial Regulations in respect of 31 cheques valued at Rs. 216,325 that not presented to pay though issued and elapsed 06 months having as per bank reconciliation as at 31 December 2017. |
| (b) Treasury Circular No. 842 on 19 December 1978                           | A Fixed Asset Register had not been maintained as per Circular.                                                                                                                                                               |
| (c) Section 6.5.1 of Public Enterprises Circular No. PED/12 on 02 June 2003 | Financial statements along with draft annual report had not been presented to the Auditor General.                                                                                                                            |

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

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Consumable items amounted to Rs. 817,033 had been written off from inventory book during the year under review without obtaining approval of Board of Directors. Further, action had not been even taken in this regard as per Financial Regulations 101 to 109 and 760.

## **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 Entity for the year under review had been a deficit of Rs. 1,311,124 and as the corresponding a surplus of Rs. 6,587,711 for the preceding year; the financial results for the year under review as compared with the preceding year indicated a deterioration of Rs. 7,898,835. Although the treasury grant for the recurrent expenditure had been increased by Rs. 3,813,000 compared to the previous year, an increase of employee remuneration by Rs. 8,065,113 and payments for obtaining services by Rs. 3,255,677 had been the reasons for the decline in the financial result.

When analyzing the financial result for the year under review with 04 proceeding years, though it had been reported the surplus in 2014 and there were deficits in 2013, 2015 and 2017. However, after adjusting employee remunerations and depreciation for non- current assets to the financial result, the contribution of Rs. 26,882,287 in the Entity in year 2013 had been continuously increased upto Rs. 66,179,762 by the end of the year under review.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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Following observations are made.

(a) Following observations are made in respect of the Corporate Plan prepared by the Entity for the period of 2017-2021.

- (i) Plans of next 05 years for the fulfillment of each objective that set when establishing the Entity had not been stated separately.
- (ii) Appropriate methods had not been decided to fulfill objectives by evaluating properly the strengths and weaknesses of the Entity, opportunities and threats of the Entity's environment that identified when preparing plans.

- (iii) The responsibilities of achieving targets that should be achieved timely related to each objective had not been distributed upto operational level on a rational basis.
- (b) An Action Plan for the entire Entity based on the Corporate Plan had not been prepared and functional plans had been prepared only for Human resource and Administration, Research and Training divisions only. The course income of the training division had not been included to the plans.
- (c) Although Action plans had been prepared for the functions that should be done by spending Rs. 37,200,000 under 04 main activities by the training division, the performance in respect of it could not be confirmed to the audit as the performance reports had not been prepared by stating financial and physical performance under those activities.

#### **4.1.2 Activity and Review**

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The following observations are made.

- (a) Following observations are made in respect of Project of exploitation and evaluation of gem deposits in Sri Lanka.
  - (i) Action had not been taken to plan and implement so as to achieve the expected performance of the project. Because of this, although the project should be implemented in 46 Divisional Secretariats in 18 Districts within the period of 2009-2011, the gem deposits had been explored only in 09 Divisional Secretariats in Monaragala District during the period upto 2017. However, Rs. 21,973,348 had been spent for the project upto the year 2017.
  - (ii) The Gem Potential Map in the Katharagama Divisional Secretariat had been preparing further and although the gem potential maps and final reports for 06 Divisional Secretariats had been prepared, they were not prepared in a standard method. Therefore, the preparation of maps according to the standard method had been commenced during the year 2017/2018 with the help of Survey Department.
  - (iii) Although the Department of Management Services had given approval on 14 July 2009 to fill the approved cadre of 26 in the project from the officers in National Gem and Jewellery Authority and Gem and Jewellery Research and Training Institute, pay 50 per cent allowance in addition to the salary for that, recruit on contract basis from externally only for the post of advisor, only 12 employees of Gem and Jewellery Research and Training Institute and external advisor had been assigned to the project.
  - (iv) The project had been implemented without Senior Geologist, Geologist, Drilling Operator, Research Assistant, Laboratory Assistant and Information System Assistant that stated in the proposal as essential to implement the project.

- (v) An allowance of 20 per cent from the salary for the project functions for the employees such as Accountant, Human Resource Manager and Accounts Clerk that not included in the project proposal and an allowance of 50 per cent of salary for planner and 03 labourers had been paid without Treasury approval.
  - (vi) It had been scheduled to obtain Rs. 48 million from the income generated from the Entity and Rs. 76.5 million from the General Treasury for the period of 2017/2021 as per cabinet approval on 22 November 2016 for this project that executed on the cost of Rs. 300.65 million under 3 stages from 2017 to 2031. The balance amount of Rs. 176.15 million had been targeted to settle from the 25 per cent from the income received from auctioning the gem lands that identified in the survey by National gem and Jewellery Authority and the income received from selling gem potential maps. However, action had not been taken to enter into agreements with National Gem and Jewellery Authority for that.
- (b) Following facts were observed in respect of the performance of the research division in the year under review.
- (i) Although Rs. 13,250,000 for 08 main activities had been allocated according to the Action Plan, Rs. 7,225,000 had not been spent. There, 02 activities that allocated Rs. 300,000 had not been implemented and financial performance of 06 activities was lesser than 38 per cent.
  - (ii) Although Rs. 400,000 had been allocated as per Action Plan by planning to hold promotional and awareness programmes in 04 areas, without implementing those tasks, Rs. 1,386,300 had been spent for unplanned activities such as holding exhibitions, printing a book, holding training programmes for high tech equipment and publishing paper articles.
  - (iii) The physical performance had not been stated in the performance reports in the human resource and administration and research divisions.
- (c) Following observations were observed in respect of the performance of conducting training courses.
- (i) Study calendar and proper plan had not been prepared for the training courses.
  - (ii) 201 out of the total number of students of 1,200 enrolled for the courses during the year under review had been left the courses. Only a course had been conducted in the Bingiriya Training Centre and the training center had been closed as 10 out of 12 students enrolled for that had been left the course.
  - (iii) Batticalo and Trincomalee training centres that scheduled to be commenced during the year had not been commenced during the year.
  - (iv) 133 students had been enrolled for 02 courses that were not in the Action Plan.
- (d) Following fact was observed in related to the fulfillment of the objectives of establishing the Entity.

Among the objectives of establishing the Entity, the contribution of the Entity for the extraction of identified gem deposits for the development of the country through surveys and researches on gem, provision of advices including the production of machineries for the development of the industry and development of the industry by promoting value addition methods and findings was at a minimum level.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Even though a public service of fee-levying heat treatment of Gevuda had been commenced, income received from that was Rs. 20,000 only due to the service was not promoted.
- (b) Legal action had not been taken to recover the amount of Rs. 1,495,749 that was to be recovered further in respect of the fraud involving gold and silver valued at Rs. 2,395,749 committed by an officer of the Entity in the year 2007.
- (c) A sum of Rs. 2,151,320 that paid to the employees of the Entity as salary increments and allowances related to the year from 2009 to 2014 by increasing had not been done a recovery as such until March 2016. It had been decided to recover from the monthly installments between Rs. 50 to Rs. 1,942 until the date of retirement of the relevant employee as per the decision of the Chairman of the Entity on 29 March 2016 in contrary to the Financial Regulation 119. The amount to be recovered further as such even by the end of the year under review was Rs. 1,925,086. As an employee whose an amount of Rs. 619,646 should be recovered had been released to another Entity, in the year 2015 such money had not been recovered from that date onwards.

#### **4.3 Underutilization of Funds**

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Although an amount of Rs. 4,115,848 had been received from the National Science Foundation for the researches related to Geuda heating on 27 April 2017, any activity related to that had not been done and, only Rs. 184,149 had been spent for employee expenses by the end of the year.

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

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Following observations are made.

- (a) 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 been in the Rathnapura regional office without using for any task from that date even upto the audited date of 31 July 2018.
- (b) An amount of Rs. 1,064,622 had been spent on insurance until the year 2016 for the earth drilling machine purchased at a cost of Rs. 12,309,013 in the year 2007. However, that machine had been remained idle for more than 02 years as it could not be used for the functions of the Entity.



- (c) A cab that was purchase at Rs. 5,974,375 in the year 2009 had been remained idle from the year 2016 as it was not economical to use by repairing.

**4.5 Staff Administration**  
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Following observations are made.

- (a) 47 that is 35 per cent, out of 135 of approved cadre of the Entity as at 31 December 2017 had been vacant and action had not been taken to recruit for the post of Director (Research) that vacant for 08 years until the audited date of 31 July 2018.
- (b) An Officer had been recruited on contract basis from 01 January 2016 for the post of the Director General of the Institute.
- (c) The Board of Directors approval had not been taken by preparing comprehensive marking scheme for interviews for posts earlier. Therefore, it had been opportunity for the interview board to act as their own wish. The transparency in the process of giving interview marks when recruiting for the posts such as Assistant Director (Human Resource), Assistant Director (Gem Science), Training Officer (Jewellery Designing) had been challenged.
- (d) A driver in the Institute had been released to the Marine University from the year 2015 without a proper approval.

**5. Sustainable Development**  
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**5.1 Achievement of Sustainable Development Goals**  
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As per Circular No: NP/SP/SDG/17 dated on 14 August 2017 issued by the Secretary of Ministry of National Policies and Defense and United Nations Sustainable Development Agenda for the year 2030, as the Gem and Jewellery Research and Training Institute had not been aware of that, it had not been identified the sustainable development goals related to those functions, the targets and the indicators for evaluating the achievement of such targets.

**6. Accountability and Good Governance**  
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**6.1 Internal Audit**  
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Following observations are made.

- (a) Although the Internal Audit Officer and Audit Assistant had been approved for the Internal Audit division, only the Internal Audit Officer had been deployed.

- (b) Although the Internal Audit Programme should be approved by the Board of Directors before beginning the year as per Management Audit Department Circular No. DMA/2009(1) on 09 June 2009, the Internal Audit Programme of the year under review had been approved on 30 May 2017. The examinations related to 07 out of 20 audit tasks that scheduled by that programme had not been done.

## **6.2 Procurement and Contract Process**

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### **6.2.1 Procurements**

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Following observations are made.

- (a) The Procurement Plan had not been prepared comprehensively by the Entity and a Procurement Time table had not been prepared even as per procurement Guideline 4.2.2. As well, the Procurement Plan had not been prepared or updated in compliance with the Budget.
- (b) Although the Procurement Plans of Rs. 40.1 million had been prepared for the purchase of capital goods, only purchased was Rs. 20.4 million that was 50.8 per cent of goods. Here, Out of the procurements in Training and Research divisions that should be given priority, it had been implemented during the year only 53 per cent and 35 per cent respectively and the library books that scheduled to be purchased by spending Rs. 500,000 had not been purchased.
- (c) Although it had been allocated Rs. 2.3 million for the purchase of computers and software, the purchase of Rs. 3.7 million had been done exceeding that amount by 62 per cent.

## **6.3 Budgetary Controls**

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As the variances ranging from 15 per cent to 373 per cent were between the budgeted and actual income and expenditure, it was observed that that the budget had not been utilized as an instrument of effective management control.

## **6.4 Tabling of Annual Reports**

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Annual reports in the year 2015 and 2016 had not been tabled in the Parliament even by the audited date of July 2018.

## **7. Systems and Controls**

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

| <b>Areas of Systems and Controls</b>     | <b>Observations</b>                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----                                    | -----                                                                                                                                                                                                                                                                                                                                                                         |
| (a) Accounting                           | <ul style="list-style-type: none"> <li>(i) Addition of expenditure items that should be stated separately and 03 interest income accounts had been stated in one account.</li> <li>(ii) Accrued expenses had not been accounted by identifying.</li> </ul>                                                                                                                    |
| (b) Procurement Activities               | <ul style="list-style-type: none"> <li>(i) The Procurement Plan had not been prepared comprehensively and in compliance with the Budget.</li> <li>(ii) Action had not done as per Plan and the procurements had been planned without need analysis.</li> <li>(iii) Action had not been taken to check post qualifications before purchasing and offering contract.</li> </ul> |
| (c) Maintenance of Documents and Custody | <ul style="list-style-type: none"> <li>(i) The files had not been maintained properly by the employees and the responsibilities of them had not assigned to the employees properly.</li> <li>(ii) The files including the details related to the foreign travels of officers and payment details had not been maintained separately.</li> </ul>                               |
| (d) Holding Examinations                 | Examinations had been conducted without proper plan, a procedure for giving certificates of courses to the students had not been prepared and the responsible parties had not been appointed as exam invidualators.                                                                                                                                                           |
| (e) Utilization of Vehicles              | Officers who used vehicles had signed in the running charts, the drivers had not signed by stating the fuel adjustment and the distance travelled.                                                                                                                                                                                                                            |
| (f) Performance Reports                  | The performance reports had not been reviewed timely by the Board of Directors.                                                                                                                                                                                                                                                                                               |