

National Gem and Jewellery Authority – 2017

The audit of financial statements of the National Gem and Jewellery Authority 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 discretion in pursuance of provision 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

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

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 Authority’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 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 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 the 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 2017 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

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) **Sri Lanka Accounting Standard 01**

As per section 32 of the Standard, income and expenditure should not be set off; only the net income of Rs. 126,781,570 had been stated on the financial statements by setting off expenditure of Rs. 82,104,236 that relevant to those projects from the income received from gem mining projects amounting to Rs. 208,885,806.

(b) **Sri Lanka Accounting Standard 07**

Although the amount of provision paid by cash in the year under review was Rs. 10,119,925, the cash outflows of Rs. 1,696,925 had been understated as it was recorded in the cash flow statement as Rs. 8,423,000.

(c) **Sri Lanka Accounting Standard 16**

(i) As per section 51 of the Standard, 14 vehicles costing to Rs. 36,310,655 that fully depreciated had been remained using as the useful life time of the non-current assets was not reviewed annually further. Accordingly, action had not been taken to state the fair value in the financial statements by revising estimated error as per Sri Lanka Accounting Standard 03.

(ii) Although the fair value should be accounted by revaluing these assets when the fair value of the property plant and equipment experience significant and quick volatile changes as per section 34 of the Standard,

without taking actions as it is, land costing to Rs. 29 million that was purchased by the Authority before 14 years old had been stated in the financial statements.

- (iii) As per section 27 of the Standard, an amount of Rs. 2,228,028 including the interest of the lease rentals paid had been capitalized instead of accounting the cost in relation to the 03 vehicles that purchased for the method of finance lease.

(d) Sri Lanka Accounting Standard 37

- (i) Although the provision for contingent liabilities should be made only a reliable estimate can be recognized precisely for the contingent liability as per section 14 of the Standard, Rs. 7,500,000 had been stated as contingent liability without identifying precisely as such. However, as per the confirmation given to the Audit by legal division of the entity, as it was only Rs. 500,000, it had been understated the Rs. 7,000,000 of cumulative profit and overstated the current liabilities from that amount.
- (ii) Although 38 cases were filed against the Authority by various parties at the end of the year under review, it had not been disclosed regarding that under the notes of the financial statements as per Section 36 of the Standard.

2.2.2 Accounting Policies

According to the accounting policies, though it had been stated that the amount of property, plant and equipment and intangible assets that should be brought forward was adjusted to accounts by reviewing in each accounting period, a sum of Rs. 7,929,609 had been adjusted to accounts in equal amounts in each year as impairment loss for the property, plant and equipment, accounts receivable, deposits and advances and other assets without reviewing as such.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to remove the cost of Rs. 5,460,000 and accumulated depreciation of Rs. 3,727,466 from books of the regional office building in Ahaliyagoda that demolished in 3 years ago, the provision of depreciation of Rs. 109,400 and Rs. 1,218,000 had been made for the year under review and previous two years respectively, the profit for the year under review and retained earnings had been understated by Rs. 109,400 and Rs. 1,218,000 respectively.
- (b) The action had not been taken to identified and accounted the value of 2 vehicles that use over several years.

- (c) As the action had not been taken to adjust the over provisioned income tax of previous year amounted to Rs. 43,749,999, statutory payments payables that stated under the current liabilities had been overstated from that amount and understated the retained earnings in the same amount.

2.2.4 Unexplained Differences

The following differences were observed in the amounts included in the financial statements as the expenses for international gem exhibitions and the contribution given by the exporters and the amounts included in the reports given by the Export Division and the reasons had not been explained for that.

	As per financial statements	As per Export Division reports	Difference
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	Rs.	Rs.	Rs.
Foreign travelling expenses of officers	6,067,092	9,673,868	3,606,776
Exhibition expenses	75,348,513	63,119,390	12,229,123
Contribution of exporters	47,924,168	50,107,159	2,182,991

2.2.5 Lack of Evidence for Audit

The following observations are made.

- (a) As the daily register for the period of 07 months since 20 July 2016 that include the details of 46 lots of gems received from the Project of Seethawaka River Phase III had not been submitted, those stones stock could not been verified as satisfactorily.
- (b) Two consumable items of Rs. 439,534 and Geuda stock of Rs. 183,548 that stated in the financial statements as at 31 December in the year under review had not been verified physically.

2.3 Accounts Receivable and Payable

The necessary legal action had not been taken to recover the 11 dishonoured cheques balances of Rs. 239,872 that came from the period of 01 to 07 years.

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

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

Reference to Laws, Rules and Regulations	Non-compliance
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|--|--|
| <p>(a) National Gem and Jewellery Authority Act No:50 of 1993</p> <p style="margin-left: 20px;">(i) Section 14 (G)</p> <p style="margin-left: 40px;">(ii) Section 18 (1)</p> | <p>-----</p> <p>Although the approval of the minister of land and the minister in charge of the subject of environment should be taken when the alienation for the auction of gem lands to the Authority, the relevant approvals had not been obtained when alienating the lot of land of 04 acres, 02 roods, 19 perches of St. Jokem Estate in Rathnapura by auction transfer for the gemming.</p> <p>Even though it is stated that “such person has acquired such mining or gemming rights by way of an auction, the price paid at such auction by such person shall be deemed to include royalty in lieu of any gems that may be found on such land”, the Authority had not determined such royalty percentages. Although an income of Rs. 24,277,611 had been earned from auctions in the year under review, no royalty from that had been paid to the Treasury.</p> |
| <p>(b) Section 11 of the Finance Act, No.38 of 1971.</p> | <p>A sum of Rs. 1,192,800,281 had been invested in Treasury Bills and fixed deposits without obtaining the approval of the Minister of Finance.</p> |
| <p>(c) Financial Regulation 137 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> | <p>It had been paid for the unapproved 02 vouchers amounting to Rs. 236,389 and 02 vouchers amounting to Rs. 561,567 that approved by exceeding the approved authority limit.</p> |
| <p>(d) Public Finance Circular No: 03/2015 of 14 June 2015</p> | <p>(i) Although prior approval of the Treasury should be obtained for when exceeding the maximum limit of Rs. 100,000 that can be given ad-hoc sub imprest, a sum of Rs.3,484,000 of ad-hoc sub imprest with ranging from Rs. 118,000 to Rs. 200,000 had been given at 20 incidents without obtaining approval as such. Further, the necessity was not taken into consideration when giving advances and the advances amounting from Rs. 6,700 to Rs. 156,700 that obtained at 04 incidents had been resettled in full amount by remaining in the hands for the period of 5 days to 22 days.</p> |

- (ii) Although the ad-hoc sub imprest should be settled immediately when the relevant task is finished, it had been delayed by the Authority to settle for the period of 12 days to 154 days of advances amounted Rs. 2,564,330 that given at 42 incidents by the Authority and a period of 2 months to 5 months of advances amounted to Rs. 950,000 for special projects at 06 incidents.

2.5 Transactions not supported by appropriate authority

An amount of Rs. 1,578,000 as Rs. 6,000 per an employee had been paid through Employee Welfare Society as New Year allowance in the year under review without Treasury approval. Rs. 1,600,000 had also been paid in the previous year and though it was shown in the Audit, action had not been taken to correct it.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year under review had been a net profit of Rs. 113,338,005 and as the corresponding net profit of Rs. 131,060,612 for the preceding year; the financial results for the year under review as compared with the preceding year indicated a deterioration of Rs. 17,722,607. Although the financial income had been increased by Rs. 29,189,561 in the year under review, although the tax expenses had been decreased by Rs. 40,635,580, land auction income and testing charges decreasing of totaling Rs.89,703,638 had been the reasons for above decline.

When analyzing the financial result for the year under review with 04 proceeding years, though it had been received the financial surplus since year 2013 to year 2015, a deficit of Rs. 43,939,388 had be received in the year 2016 and again a surplus of Rs. 113,338,005 had been received in the year under review. However, after adjusting employee remunerations, tax paid to the government and depreciation for non- current assets to the financial result, the contribution of Rs. 273,309,778 in year 2013 had been decreased by Rs. 263,205,729 as at the year 2016 but it was increased again upto Rs. 292,969,699 by the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

(a) Corporate Plan

- (i) As per Section 5.3 of Public Enterprises Circular No. PED/12 dated on 02 June 2003, Corporate Plan of the Authority including the year under review had not been updated.
- (ii) Following functions that comprised in the Section 14 of Gem and Jewellery Act No. 50 of 1993 had not been included into the Corporate Plan.
 - Training and develop persons on specially heat treatment and gem cutting for the development of the industry.
 - Taking necessary steps for creating confidence towards the gem and jewellery industry within the potential buyers.
 - Prevention of illegal gem mining and illegal removal of gems out of Sri Lanka.
 - Establishment of required relationships among government departments for the development of gem and Jewellery industry within Sri Lanka.
- (b) The activities that include in the authority's duty related to the functions such as provision of facilities for gold importers, promotion and provision of facilities for gem and Jewellery exchange in Sri Lanka, managing and monitoring of Rathnadeepa sales stall had not been included in the Action Plan.
- (c) The progress of the sub activities of the earnings of foreign exchange through exporting gems had not been stated separately in the performance report and the performance of the activities such as implementation of legal mechanism of the Authority and evaluation of cadre performance had not been reported.
- (d) A proper method had not been prepared to examine the progress of the fulfillment of targets in the Annual Action Plan.
- (e) The main procurement plan had not been prepared with the compliance of approved budget estimate as per guideline No.4.2 of Procurement Guidelines 2006.

4.1.2 Activity and Review

The following observations are made.

- (a) Although 46 activities had been identified for the implementation within in the year to the Action Plan of the year under review, action had not been taken to accomplish 04 activities out of it that should be done by spending Rs. 268,920,000 and 03 activities that the value not estimated. Further, 07 activities that scheduled to be completed at the end of the year under review had not been completed and their physical progress ranged from 56 per cent to 88 per cent.
- (b) Though the gem lands scheduled to be auctioned within the year were 10, 4 lands and 24 veins of metals auctions had been done but the expected financial performance had not been achieved.
- (c) It had been scheduled to hold 16 foreign exhibitions and 05 local exhibitions under the finding and assuring the new markets in the Action Plan of the year under review and 15 foreign exhibitions and 12 local exhibitions had been held. However, it had not been mentioned the details regarding found/assured new markets and the information regarding even the local exhibitions that enable to achieve related objective had not been presented.

4.2 Management Activities

The following observations are made.

- (a) The alienation of ownership of the lands for gemming by the authority, auctioning of handed over gems for sale, decision of minimum bid price for a lot of land when auctioning lands and valuation of auctioned gems had not been done by the qualified committee.
- (b) The environmental approval had not been obtained when auctioning a lot of land having extent of 04 acres, 02 roods, 19 perches from the St. Jokim estate in Rathnapura owned to the Tea Research Centre for gemming by the authority. Although the balance of 04 lots of lands after auction had been called prices and sold, the approval had not been obtained from the Tea Research Centre, the land owner for that and though the sale of the land after auction should be done through a committee, it had not been done so.
- (c) Action had been done by considering the variance of 20 per cent that remained in between estimated price and sale price as the normal situation when valuing gems for auction by the Authority. But, when auctioning the 57 lots of gems in Seethawaka River Project, the price variance of 43 lots ranged from 110 per cent to 1,168 per cent.

(d) Implementation of selling and gemming of veins of metals projects

24 auctions had been done by taking over gem veins of metals that arisen from different areas in the island and an income of Rs. 20,152,755 had been earned from that. Following observations are made regarding that.

- (i) Although it had been re-auctioned by reducing minimum bid price of the veins of metals stock that remained without selling in auctions at number of incidents, the approval had not been obtained for that from a price deciding committee.
 - (ii) The external entrepreneur had been selected for washing 09 lots that not auctioned from the veins of metals stock arisen from the Kadjuwatta Matuwagala route and the action had been done by the Chairman to reduce the minimum bid price that kept for that project from Rs. 75,000 to Rs. 10,000 without giving reasonable reasons.
 - (iii) Follow up activities for washing the removed veins of metals had been remained in a weak level.
 - (iv) The project had been implemented by selecting an entrepreneur for Rs. 1,600,100 for the long term project of extraction of veins of metals that removed when constructing fish ponds in Udawalawa Freshwater Aquaculture Breeding Centre of Aquaculture Development Authority. But, the approval had not been obtained for that from Ministry of Fisheries and Aqua Resources Development that having the ownership of the land and though it had been agreed to give soil of the seams that removed in the development activities only to the Authority, the gemming had been done by mining large area. The concurrence of the minister of land and the minister in charge of the subject of environment had not been obtained for mining as per Section 14(g) of National Gem and Jewellery Authority Act No. 50 of 1993.
 - (v) There was no any approved defined methodology for the division of net income of gemming projects in between the Authority and entrepreneurial party and actions had not been taken to auction and earn income from the 1417.83 karat weighted gems that received from Udawalawa gemming project and deposited in the bank at 31 incidents from 17 December 2016.
- (e) Although a private company had been established with the capital contribution of Rs. 92,948,578 from the Authority and gem exporters for the commencement of laboratory in the year 2009, the registration of the company had only done upto the audited date of 04 May 2018. An amount of fixed deposits invested from the name of the private company was Rs. 139,612,000 as at 31 December 2016 and as per the cabinet decision dated on 16 August 2016, the action had not been taken to collect those funds to the Authority and to implement the cabinet recommendations.

- (f) Action had been done to select an entrepreneur on 10 August 2017 for the implementation of the project without obtaining approval of Central Environment Authority, Department of Irrigation, Road Development Authority and relevant Divisional Secretary for the Kalu Ganga Haraniyawaka Gemming Project.
- (g) The participation of exporters for the foreign exhibitions for the Authority's objective of expansion of gem and Jewellery market out of the Sri Lanka should be done and for that, 14 export exhibitions had been held by spending Rs. 75.3 million in the year under review and the following facts were revealed in relation to that.
- (i) It was not possible to ensure the effectiveness of that expenditure due to the lack of a methodology for confirming accuracy of sales and examining whether the export income has increased actually through the participation of the exporters.
- (ii) 167 of Sri Lankan Exporters had participated for the 14 foreign gem exhibitions held in the year under review and the estimated value (FOB) of gemstones that presented for the exhibitions was Rs. 21,053 million. Out of these gem stones, gem stones with the estimated value of Rs. 2,355 million had been sold and though the Authority received only the income of Rs. 11.6 million from that, an amount of Rs. 22.7 million had been incurred from the funds of the Authority for these exhibitions.
- (iii) Action had not been taken to participate exporters for 02 foreign exhibition included in the Export Promotion Plan 2017 and an exhibition that not included in the Plan had been held in Indonesia incurring Rs. 2,230,817 even without the Board approval.
- (iv) The Authority had to incur an amount of Rs. 990,752 in excess due to not taking contribution of exporters as scheduled for 04 exhibitions held and an excess amount of Rs. 6,361,362 had been incurred exceeding the estimation of 03 exhibitions.
- (v) Although the Authority had expended Rs. 12,942,385 for 04 exhibitions, it had been participated only in 13 exporters and none of the exporters had been participated for one exhibition.
- (vi) The Authority had to expend Rs. 4,981,650 out of the total expenditure of Rs. 7,457,740 due to not taking more contribution of exporters for 02 exhibitions that participated in 71 exporters.
- (vii) There was no a proper methodology to participate officers of the Authority for foreign exhibitions and same set of officers had been participated. 04 officers had been participated in number of 5 to 7 exhibitions in years of 2016 and 2017 in there. Further, the higher cost of Rs. 1,654,400 had been expended by the Authority for 04 officers for an exhibition held in China in the month of June 2017.

- (viii) The excess amount of Rs. 441,374 had been paid in compared to the normal fare for the exhibitions held in China and United States of America due to not reserving seats in flights in beforehand though foreign exhibitions had been scheduled in the previous year.
- (h) The provision of Rs. 22,000,000 had been made as incentives for the year under review without based on the estimated profit and even the Treasury approval had not been obtained for that as per 8.3.3 of Public Enterprises Circular No. PED/12 dated on 02 June 2003.
- (i) The action had not been taken to amend the Act by including necessary amendments though it had been elapsed 24 years establishing the Authority from the Act No. 50 of 1993.

4.3 Underutilization of Funds

Although the cash had been collected for the Jewellery Development Fund that established for the development and growth of jewellery industry through the Budget proposal of 2007 from the registration fee of Rs. 5,000 charged from jewellery technicians annually, any the work except spending of Rs. 3,793,470 incurred in years of 2012 and 2013 had not been done from this fund and the balance of it as at the end of the year review was Rs. 65,740,000.

4.4 Idle and Underutilized Assets

Following observations are made.

- (a) A machine that purchased at Rs. 907,500 for washing veins of metals in the Seethawaka River Gemming Project and a fiber boat purchased at Rs. 303,148 for the use of that project had been kept insecure without using from March 2017.
- (b) A silver goods sealing machine that was in gold quantity determination laboratory in Galle had been remained idle from the year 2015.

4.5 Staff Administration

Following observations are made.

- (a) Although it had been informed to amend the new Scheme of Recruitment for the posts of the Authority as amended by the letter of Director General of Management Services No. DMS/Policy/3 dated on 01 November 2013, it had not been amended as such. The Scheme of Recruitment for entire entity had not been approved at once and it could not been maintained the posts and qualifications properly and adjust by approving from time to time.

- (b) Although new recruitments should be done after approving Scheme of Recruitment as per the letter of Director General of Management Services No. DMS/E 2/33/7/213/3 dated on 03 November 2011, the Scheme of recruitment had been approved after recruiting 04 posts and 13 officers had been recruited for 03 posts without approving as such.
- (c) Although employees had been recruited from the structured interviews for the posts of the Authority for the posts of the Authority, marking schemes had not been prepared in detail with transparency and approved in the interviews. Hence, the interview board could be acted as their own discretion.
- (d) Nine candidates had been interviewed for the post of Promotion Officer but one who not having basic qualifications had been appointed for the post. It had been contentious that giving 15 marks without having service experience and 03 marks for without having other qualifications for the selected female candidate at the interview.
- (e) Five officers who were not having relevant recruitment qualifications for the posts of Assistant Director (Land and Regional Development) had been promoted for that post and though the approval for the recruitment for the post of Assistant Director (Procurement) had been obtained on 22 May 2015, Assistant Manager (Supplies) had been doing duties in that post for more than 02 years period without doing recruitments. Further, although it should be appointed for acting only for 03 months as per Section 9.3 (vii) of Public Enterprises Circular No. PED/12 dated on 02 June 2003, in contrary to that, Director (land, Environment and mining) had done acting in the post of Director (Export) that was prevailed in more than one year.
- (f) The educational and professional qualifications certificates submitted by the officers of the Authority had not been confirmed from relevant institutions.
- (g) Although the performance should be evaluated annually when giving promotions, trainings and annual salary increments for the non-executive officers, steps had not been taken for that.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Although every public institution should act in compliance with United Nations Sustainable Development Agenda for the year 2030 and Circular No:NP/SP/SDG/17 dated on 14 August 2017 issued by the Secretary of Ministry of National Policies and Defense, as the National Gem and Jewellery Authority had not been aware of that, action had not been done to identify the sustainable development goals related to the own scope, the targets and the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Although financial statements and draft annual report should be presented to the Auditor General within 60 days after ending the financial year as per the section 6.5.1 of the Public Enterprises Circular No: PED/12 dated on 02 June 2003, the approved financial statements for the year under review had been presented on 03 April 2018 and the draft annual report had not been presented even by the audited date of 04 May 2018.

6.2 Internal Audit

19 testing works that targeted to be tested by Internal Audit Plan of the year 2017 had not been implemented within the year and as per Financial Regulation 133(2), though the internal audit division should check the confidency of the accounts reports, annexures and notes of the entity, the testing had not been done in relation to that.

6.3 Procurement and Contract Process

6.3.1 Procurements

Following observations are made.

- (a) The contractors and consultants should be selected in compliance with the Procurement Guidelines for the 03 construction projects amounting to Rs.1,593 million that proposed to implement by the Authority for the construction of new head office building, construction of Demuwawaka international gem centre and construction of Katharagama holiday resort, contrary to that, it had been referred to select contractors and advisors and obtain approval through cabinet papers.
- (b) An amount of Rs. 2,300,000 had been paid as mobilization advance to Central Engineering Consultancy Bureau before approving the relevant cabinet paper for the procurement of the construction of head office building of the Authority.
- (c) The expense of Rs. 2,819,258 had been incurred for the demolishing of a building that owned to the Rathnapura Divisional Secretary and establishment of an office that prevailed there in the Authority before commencement of the procurement process related to the construction of a gem lane in Demuwawaka, Rathnapura.

6.3.2 Deficiencies in Contract Process

(a) Construction of Ahaliyagoda Office Building

The contract had been offered to Subasinghe and Earth Movers Institution by entering into an agreement on 06 March 2017 for the construction of above office building for Rs. 180.97 million and the following observations are made in this regard.

- (i) Although the Geo Physical Division of Central Engineering Consultancy Bureau had recommended for put a foundation base on raft for the building according to the nature of soil in the relevant construction area, later that division itself had approved for laying foundation on pillars instead of foundations based on raft and prepared estimates for that.
- (ii) Although the total cost estimation for the construction of the building was Rs. 199.97 million, 15 pillars out of 42 that proposed to construct as per the nature of the premise had not been constructed proper way and it had been constructed pillars again by pressing the land by using low grade concrete. The additional cost that had to incur for this was Rs. 35.8 million. Hence, as the related total cost was Rs. 235.77 million, the approval of the Ministry Procurement Committee had not been taken as per Procurement Guideline No: 8.13.4 for that.
- (iii) As per recommendations given by National Building Research Institute regarding the construction, though the foundation plan should be done by a Chartered Engineer, action had not been taken to doing so.
- (iv) Although the approval had been obtained from Urban Development Authority before construction building, the constructions had been commenced on 04 April 2017 without obtaining the approval.
- (v) The consultancy service for preparing engineering estimate for the construction had been offered to Central Engineering Consultancy Bureau and accordingly, it had been agreed for the percentage of 4.85 per cent from the estimation for the consultancy fee. As per agreement entered into, though the consultancy fee payable was Rs. 6.62 million, action had been done for assign relevant duty for a consultancy fee of Rs. 9.7 million.

(b) Establishment of mobile laboratory for testing gem and jewellery

- (i) Action had been done to purchase a normal passenger bus without seats for Rs. 7,200,000 instead of importing a specially made vehicle including the specifications required for the establishment of mobile laboratory and convert the purchased vehicle for a laboratory by incurring Rs. 2,456,500. But, it had been failed to maintain the required standard, quality and facilities for the laboratory due to the reasons such as unfixing jewellery testing equipment, unavailability of air condition for the back of the vehicle, having to get external electricity and existence of conversion errors.

- (ii) An air condition machine with the estimated value of Rs. 1,500,000 that was in the vehicle had been removed when converting into a laboratory. Action had not been taken to reuse by receiving the removed machine in proper condition to the Authority or obtain a maximum value by disposing at earliest to prevent the reduction of value in naturally and it had been remained idle even by 04 May 2018.
- (iii) Action had been taken to pay the total amount that should be paid after converting bus into a laboratory without keeping retention money as per Procurement Guidelines.
- (c) Although entering into service agreement had been done annually as per Procurement Guideline 2.14.1, maintenance amounting to Rs. 438,918 had been done years after that based on the agreements entered into for the maintenance of air condition in the year 2014.

6.4 Budgetary Control

Variations ranging from 22 per cent to 1112 per cent were observed between the budgeted income and expenditure and actual income and expenditure thus indicating that the budget had not been utilized as an instrument of effective management control.

6.5 Unresolved Audit Paragraphs

An officer over the age of 60 years had been deployed in service with effect from October 2012 as a Consultant on contract basis contrary to Section 9.1 of Chapter II of the Establishments Code without the approval of the Cabinet of Ministers, only on the approval of the Board of Directors.

6.6 Performing of Environment and Social Responsibility

Following observations are made.

- (a) 10 conditions out of 22 conditions that ordered by the Central Environment Authority had been violated by the Authority for the Phase III of Seethawaka Gem Mining project that implemented on the direct involvement of the Authority. Therefore, as the implementation of the project had been suspended from 11 October 2016, the project had been implemented for 05 months after suspending. Further, though the Authority had been informed by the Central Environment Authority to normalize the left bank of Seethawaka River that eroded due to the excavating activities of the project under the technical advices of Department of Irrigation, steps had not been taken for that.
- (b) The rehabilitation activities of the mine pits abandoned improperly were in a weak level and out of the contracts of close down 10 mine pits that subjected to the audit, action had not been taken to close down 05.

7. Systems and Controls

Deficiencies 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.

Areas of Systems and Controls	Observations
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(a) Accounting	(i) Over provisions for income taxes had not been adjusted to accounts. (ii) All fixed assets that used had not been accounted on accurate value.
(b) Operating Control	(i) It had not been decided about Supervisory Board that should be for the opening of gem containing boxes when implementing gem mining projects. (ii) A proper documentation had not been done on supervisory officers participated in, opening of gem containing boxes and deposit of gems in bank. (iii) Batching the auctioned gem stones for the valuation, not appointing officers for valuation and auction properly, not keeping reports for that and signing of documents had not been done properly. (iv) The exporters themselves had decided the value of gem stones when bringing gem stones for exhibitions by exporters and the Authority had not taken the copies of the insurance certificates. (v) Not charging management fee based on the value of the gems brought. (vi) The Customs and the laboratory had not assured by stamping that when exporters turned back with gems that brought for the exhibitions, that it was the same gem that brought. (vii) It had not maintained the separate files for each exporter.
(c) Advance Control	(i) Advances had been given for the payments that should be done by cheques. (ii) Incompleteness of the vouchers due to prevailing of incidents that not stating settlement date, advance amount and name of the officer in the advance settlement vouchers. (iii) Advance Register had not been maintained properly.

- (d) Vehicle Control The running charts and log books of 13 vehicles in the Authority had not been maintained properly.

- (e) Staff Administration (i) Scheme of Recruitments had not been approved.
 (ii) The educational and professional qualifications of officers had not been confirmed.
 (iii) Performance had not been evaluated when giving annual salary increments.