

1.1 Qualified Opinion

The audit of the financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2018 comprising the Statement of Financial Position as at 31 December 2018 and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Institute's financial reporting process.

As per Sub Section 16 (1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Responsibility of the Auditor in relation to the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is great than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the Board of Governors of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
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(a) In contrary to the Sri Lanka Public Sector Accounting Standards No. 02, adjustment of an amount of Rs.1,854,749, which was the gratuity expenses as money generated from	Action will be taken in this year to adjust the gratuity expenses under the operational activities in the cash flow Statement and to adjust gratuity payable under the working capital changes.	Action should be taken in compliance with the directives of the Standard.

the operating activities in the cash flow and adjustment of an amount of Rs.1,077,323 as money generated from the operating activities in the cash flow instead of adjusting the amount of Rs. 777,426, which was the gratuity payable, as the Working Capital Changes.

(b) In terms of the Sri Lanka Public Sector Accounting Standards No. 07, the motor vehicles had been depreciated in a manner that it had been limited to 4 years without a due evaluation of the useful life of motor vehicles. A motor vehicle had been depreciated by 6.2 per cent each per year in contrary to the aforementioned depreciation policy without evaluating the useful life of a motor vehicle, which costed at Rs. 6,390,000. Likely, action had not been taken to revalue and to account 05 motor vehicles costing Rs. 31,565,440 and which were fully depreciated in terms of paragraph 65 of the Standard even though they were being used.

The ratio of depreciating motor vehicles by adopting the straight line method was 25 per cent and the vehicles had been depreciated considering the useful life as 04 years. In terms of the Sri Lanka Accounting Standards No .07, adjustments had been made to the impact of the computation of the useful life and it had been brought to account in the final accounts in the preparation of final accounts for the year 2018. The useful life of 4 vehicles received from the General Treasury has been revalued in the year 2018 as Rs.6,897,500 and the amount had been brought to accounts in the Motor vehicles Account and the amount had been also stated in the notes to the accounts.

Action should be taken in compliance with the directives of the Standard.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The depreciation provision related to motor vehicles in the year under review had been overstated by Rs.126,875 in the financial statements.	The value of deprecation is accurate in relation to the date of purchase.	In accordance with the Sri Lanka Public Sector Accounting Standards, the accurate value of depreciation should be brought to accounts in the financial statements.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendati on
(a) Section 3.1 of the Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Even though the Officers in their probationary period should not be allowed to go abroad for studies and for trainings, a female officer who was in the probationary period had been gone abroad for a foreign training.	In the approval of personal foreign leave for this female officer, action had been taken by considering this as a very urgent and a personal matter as stipulated in Section 23.4.1 of the Establishments Code.	--- Action should be taken in compliance with the Establishments Code.
(b) Paragraph 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	Annual Reports including Audit reports for the years 2015, 2016 and 2017 had not been tabled in the Parliament even by 31 March 2019, which was the date of audit.	The Annual Reports for the years 2015 and 2016 had been submitted for tabling in the Parliament and action will be taken to table the annual report for the Year 2017.	Action should be taken in terms of the provisions of the Circulars.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 2,787,629 and the corresponding deficit in the preceding year amounted to Rs. 1,311,124. Therefore, an improvement amounting to Rs. 4,098,753 of the financial result was observed. Even though the expenses on personal emoluments had been increased by Rs. 8,448,921 and capital investment expenses had been increased by Rs. 5,154,920, the increase in the income earned from training courses by Rs. 2,516,645 and treasury grants for recurrent expenditure by Rs. 17,414,000 had attributed mainly for this improvement.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to recover the amount of Rs. 750,869 that should be chargeable further in relation to a gold and silver fraud amounting to Rs. 2,395,749 committed by an officer in the institution in the year 2007.	Since the Attorney General's Department had informed that it is not possible to institute legal proceedings for the recovery of the amounts, the approval of the Board of Directors had been granted for writing off an amount of Rs.750,869 from books and this had been informed to the General Treasury through the Secretary of the Ministry.	Action should be taken to recover the relevant amounts.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An officer from whom an amount of Rs. 619,646 had to be charged for the salaries and allowances paid in excess had been released to another institute and action had not been taken to recover the amount even by the date of the audit.	A letter of demand had been sent to the officer for the recovery of an amount of Rs. 619,646, which had been paid in excess as salaries. Accordingly, this matter had been referred to the Attorney General's Department to institute legal proceedings against the Officer.	Action should be taken to recover the relevant amounts.
(b) Three officers of the institute had incurred an expense of Rs. 801,826 for an official tour to Myanmar from 04 November to 10 November 2017. The major objectives of the tour was to establish a Centre of the institution in Myanmar and earning foreign currency through transferring the knowledge of cultivating pearl oysters from Myanmar to our country. The foreign tour had been approved for the transfer	Since the institution conducts researches and training in relation to gem and jewellery field, it is important for the researchers to involve in their researches with the knowledge in cultivation of pearl oysters that is a related field of the industry. The knowledge pertaining to the field could be obtained for the full duration of the tour of 05 days. I admit that adequate information had not been included in the plan prepared in relation to the tour due to the language barrier.	Action should be taken to accomplish the institutional objectives and the payments made in excess should be recovered.

of knowledge related to the cultivation of pearl oysters which was not a role of the institution and an amount of Rs. 103,092 had been over paid due to the payment of combined allowance for entire 6 days by approving the tour for 7 days in order to participate in the programme conducted for 3 days.

Combined allowance had been paid for the entire 06 days as indicated in Section 4 (c) of the Finance Circular 01/2015/01.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Three activities in the Research Division and 2 activities in the Administration and Human Resources Division scheduled to be implemented by incurring a total of Rs. 2.35 million as per the Action Plan had not been accomplished within the year. Only an amount of Rs. 20.1 million had been incurred out of the sum of Rs. 30.95 million allocated for 2 activities of the Administration and Human Resources Division.</p>	<p>Transfer of the provisions allocated for the project for another project, non-submission of invoices and source documents related to the payment of money to the institution and not making provisions amounting to Rs. 8 million by the Department of Treasury Operations in the relevant year were the reasons for the inability to achieve the performance.</p> <p>As a whole, 77 per cent of financial progress and 98 per cent of the physical progress had been accomplished in the year 2018.</p>	<p>The Action Plan should be practical and the institution should try to accomplish its targets.</p>
<p>(b) Project on Exploration and Assessment of Gem deposits in Sri Lanka.</p>	<p></p>	<p></p>
<p>(i) Even though the approval had been granted by the Department of Management Services to recruit 23 employees on the contract basis for the staff, the recruitments had not been made.</p>	<p>Action has not been taken to make recruitments to the Posts approved by the Department of Management Services as the monthly allowances approved by the Department of Management Services are not adequate. Project activities had been</p>	<p>Staff approved for the project should be employed.</p>

carried out by obtaining the services of the permanent staff of the institution. The assistance of trainees employed on the requests made by the Universities was obtained for the research activities of the institution.

(ii) Even though gem deposits should be explored within 50 Divisional Secretary's Divisions in 5 Districts during the period of 2017 – 2021 under the phase 1 of the project and maps should be prepared and the final reports should be issued, exploring of Gem deposits only in 9 Divisional Secretary's Divisions in 2 Districts were being carried out at the end of the year under review. Mapping of potential gem-bearing lands only for 5 Divisional Secretary's Divisions out of those Divisional Secretary's Divisions and final reports had been issued for 2 Divisional Secretary's Divisions only.

It was not possible to issue mapping of potential gem-bearing lands and final reports as Research Officers who had conducted exploration activities in Thanamalwila and Kataragama Divisional Secretary's Divisions had left the institution and the task would be completed by employing the research officers present in the institution. The exploration of gem deposits in Bandarawela Divisional Secretary's Division had been completed and it has been submitted for obtaining the approval of the Board of Directors.

Action should be taken to accomplish the anticipated performance.

(iii) Seventy eight (78) lands possessed by private owners and 44 State owned lands in 2 Divisional Secretary's Divisions, which had issued final reports, had been discovered as having gem deposits. Action had not been taken to earn income through the auctioning of state owned lands which were identified as potential gem-bearing lands and through the sale of the maps of those lands and a necessary programme to sell maps of the private lands had not been prepared.

Activities on directing potential Gem-bearing lands identified by the project for auctions had been initiated in coordination with the National Gem and Jewellery Authority and the activities have been successfully implemented and a significant progress has been achieved in that regard. Actions are being taken to direct Lands with Jayaboomi and Swarnaboomi deeds for mining and for auctions as and when appropriate.

Action should be taken to accomplish the project targets.

It has been scheduled to conduct mining activities in Haldummulla area in the near future in relation to the pilot project, which had been referred

- to the National Gem and Jewellery Authority, implemented in 5 suitable places.
- (c) A three-year project costing Rs.9,975,088 had been initiated for introducing more effective and efficient methods for improving the colour and the clarity of low-priced gems. Oiling and wax coating treatments and purchasing of two machines within two years of initiating the project as per the agreement had not been carried out up to the date of Audit. An amount of Rs.2,639,564 out of the amount of Rs. 4,115,848 provided for the project in the year 2017 had not been incurred even at the end of the year under review.
- Repairs had been carried out prior to the lapse of two years after the commencement of the project. It had been scheduled to purchase Pressure vessel using the financial aids provided for the following year as provisions had not been released from the National Science Foundation for purchasing the equipment. An amount of Rs.3,927,534 had been incurred by 30 April 2019.
- Action should be taken to achieve the due performance.
- (d) Two hundred eighty four (284) students viz, 23 per cent out of 1,220 students enrolled by the institution for the courses during the year had left the courses. Only 2 courses had been conducted in Polonnaruwa Training Centre and 09 out of 21 students enrolled for the 02 courses had left the courses. The Centre had been closed as there was no adequate number of students. A course scheduled for enrolling 40 students had not been conducted.
- The number of students who had left the course during the audit year was in a minimum level in comparison to the number of students left the course in the previous years and the percentage of students, who had completed the courses was approximately 80 per cent.
- Identification of trainees has become problematic even though various propaganda programmes have been implemented in Elahera and Bakamuna areas where the Gem Industry is expanded. One hundred thirty two (132) students were provided with a training from the year 2015 to 2018. And the students would be adequate for the expansion of the industry in the area.
- Courses have not been commenced as adequate number of students has not applied for

courses and participated in courses even though courses have been scheduled in the gem and jewellery field. Action has been taken to further develop and to initiate courses in the future.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Two vehicles remained idle for a period of 9 years to 2 years.	Even though action was taken to sell the Cab as there were no buyers to purchase the cab for the estimated amount. Action is being taken to dispose the vehicle with the three-wheeler.	Action should be taken to use or dispose the assets.

3.5 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
Equipment planned to be purchased by allocating provisions amounting to Rs. 13,000,000 in the year under review had not been purchased and an amount of Rs. 8,730,976 had been incurred for purchasing equipment planned to be purchased in the previous year.	Even though procurement activities were conducted in the year 2017, payments for equipment had been made in the year 2018 as it was not possible to make payments due to non-receiving of money in the year and due to the inability of completing the procurement activities.	Action should be taken to make purchases in accordance with the plans.

3.6 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Quotations received in accordance with the national competitive bidding for the purchase of 3 assets for the training division had been rejected without giving a clear explanation and paper advertisements had been published again by incurring an amount of Rs. 162,552.	Quotations were called again as per the decision taken by the Management and as per the approval granted by the Procurement Committee that it is appropriate to call national competitive bidding rather than calling quotations using the limited competitive bidding method.	Action should be taken as per the procurement guidelines.

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| <p>(b) A detailed procurement plan had not been prepared by the institution as well as a procurement timetable had not been prepared as per Procurement Guidelines 4.2.2. The procurement plan for the year under review had been approved on 04 June 2018.</p> | <p>Action will be taken to prepare a detailed procurement plan for the year 2019. Even though the procurement plan had been prepared at the beginning of the year and had submitted for the approval on 20.02.2018, a certain period of time had passed for obtaining the approval.</p> | <p>Action should be taken as per the procurement guidelines.</p> |
| <p>(c) Although the Technical Evaluation Committee had recommended the price of Rs. 275,000 for the purchase of Gemmological Trinocular stereo Zoom Microscope equipment to the training division, procurement committee had rejected the purchase of the equipment. The equipment had been purchased on the approval of the procurement committee at the price Rs. 547,560 received for the equipment at the second time of inviting quotations. The loss incurred to the institution in the purchase of 2 units of the relevant equipment was Rs. 545,120. This equipment, which was required for a course of study scheduled to be commenced in September 2018 had not been received to the institution even by March 2019.</p> | <p>The Procurement Committee had recommended to invite quotations for the second time by preparing technical specifications due to non-identification of technical specifications properly. Accordingly, the purchase of the equipment was recommended by the Procurement Committee from the institution which had submitted the lowest price and had properly accomplished the technical specifications in the invitation of quotations and the two items of equipment have already been supplied.</p> | <p>The procurement process has to be implemented after the identification of the technical specifications properly.</p> |

3.7 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
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<p>(a) The approved cadre as at the end of the year under review was 131 and 58 number of Posts remained vacant. Action had not been taken even by the date of audit to recruit for the Post of Director (Research), which had remained vacant for a period of 8 years.</p>	<p>The approval of the Department of Management Services had not been granted to recruit the entire staff. Presently, the permanent Cadre is 86 and the aforementioned gap had been minimized up to 36 per cent. Even though applications had been invited for the recruitment to the Post of Director (Research), it was not possible to recruit a person for the Post as applications from qualified persons had not been received.</p>	<p>Action should be taken immediately to fill vacancies in the staff and posts in the top management level.</p>

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>An action plan for the year under review had not been prepared based on the corporate plan prepared and human resources and Sectoral plans had been prepared only for human resources and administration, research and training divisions.</p> <p>Performance Reports had not been prepared in compliance with the action Plans stating financial targets and physical targets.</p>	<p>-----</p> <p>Action plan of the institution is prepared in compliance with the annual capital budgetary provisions. Sectoral action plans related to research and training divisions, which are considered as the major divisions of the institution as well as administration and human resources divisions which are considered as ancillary divisions had been prepared as each Division holds the responsibility of preparing action plans. The physical as well as financial performance related to all the activities have been indicated in the Performance Reports.</p>	<p>-----</p> <p>The action plan should be prepared as scheduled and targets and performance should be duly mentioned in the performance reports.</p>