

Head 440 – State Ministry of Gem and Jewellery Related Industries

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Gem and Jewellery Related Industries for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended, 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. The summary report including my comments and observations on the financial statements of the State Ministry of Gem and Jewellery Related Industries was issued to the Accounting Officer on 07 July 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 29 June 2021. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements of the State Ministry of Gem and Jewellery Related Industries as at 31 December 2020 and its financial performance and cash flow for the year then ended, give a true and fair view in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters stated in the Paragraph 1.6 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 opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

Chief Accounting Officer or the Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section **38** of the National Audit Act, No. **19** of **2018** and for such internal control as Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section **16(1)** of the National Audit Act, No. **19** of **2018**, the Department 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.

As per Sub-section **38 (1) (c)** of the National Audit Act, the Chief Accounting Officer or the Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry exists and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for 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 skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.

- Although it is not intended to express an opinion on the effectiveness of internal control of the Department, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I express the following matters in accordance with Section 6(1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

There was no any requirement to prepare financial statements for the previous year as the State Ministry of Gem and Jewellery Related Industries has been established in the year under review.

1.6 Comments on the Financial Statements

1.6.1 Non-compliance of Financial Statements to the Provisions of Circulars

Following observations were made.

Audit Observation

Comments of the Accounting Officer

Recommendation

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| (a) | Although the final treasury accounts should be included in the financial statements as annexures as per Section 3.1 of Public Finance Circular No. 02/2020 (Guideline) | It has been informed that action will be taken to do so in the coming years. | Final Treasury Account Statements should be attached as annexures to the Financial Statements. |
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- (b) As per Section 7 (vi) of Public Finance Circular No. 02/2020 (Guideline) 6, a cash imprest account had not been prepared to match the difference between the value to be paid to the Treasury according to the Treasury balance and the cash book of the Ministry. - Do - Arrangements should be made to prepare a cash imprest account.

1.6.2 Accounting Deficiencies

Following observations were made

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
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(a) Recurrent Expenditure

Budget Estimated Net Allocation for Recurrent Expenditure under Program 1 and Program 2 was Rs.107.65 Million and, Out of which only Rs.17.59 Million had been utilized. Accordingly, provisions for recurrent expenditure of Rs. 90.06 Million had not been utilized. It was 83.66 percent of the net provision.

Mentioned amount is correct.

Efforts should be made to achieve the objectives of the Ministry efficiently by utilizing the allocated funds.

(b) Capital Expenditure

Budget Estimated Net Allocation for Capital Expenditure under Programs 1 and 2 was Rs.22 Million and the actual cost was Rs.9.38 Million. Accordingly, Rs.12.62 Million had not been utilized and, it was observed that it was 57.36 per cent as a percentage of net provision.

Mentioned amount is correct.

- Do -

(c) Property, Plant and Equipment

According to Treasury records, I would like to inform It should be though the non-financial asset you that in future we compared the balance balance as at 31 December 2020 is will compare the in the accounts with Rs. 38,449, as the balance in the balances according to the treasury notes and statement of non-financial assets the ministry accounts showed the correct included in the financial statements with the treasury notes value. prepared by the Ministry was and show the correct Rs.80,949, A difference of Rs.42,499 value. was observed.

2. Financial Review

2.1 Expenditure Management

Following observations were made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The total provision for 13 recurrent expenditure items under Program 1 was Rs. 20,385,000 and, the total actual expenditure was Rs.8,803,375. Accordingly, the total savings was Rs.11,581,625 and the savings percentage as per expenditure subjects was ranged from 77 per cent to 100 per cent. As the new State Ministry was established on 13 August 2020, it was observed that over-provisions had been made instead of allocating funds for the period up to 31 December 2020.	The provisions have been made through the Interim Account by establishing as a new Ministry on 9 August 2020. Over-provision had not been made.	Provision should be made on the basis of realistic estimates so that there is no over-provision for recurrent expenditure.

- (b) The total net provision made for o3 expenditure subjects of Capital Assets Rehabilitation and Improvement and 02 expenditure subjects for Capital Asset Acquisition Expenditure under Programme 1 was Rs. 2,870,000 and, The balance was Rs. 2,493,960. Furthermore, savings in provisions as a percentage of provision was ranged from 73 percent to 100. Accordingly, it was observed that the total allocation of Rs. 2,493,960 had not been utilized in 05 capital expenditure subject.
- Due to the inability to accurately estimate the allocations in establishing it as a new Ministry, provisions have been made on the basis of gross estimates. Slowing down the institutional matters, staff vacancies and working under expenditure limitations due to unfavourable health conditions prevailed in the country have been reasoned for the savings in the provisions.
- Provisions should be made in a realistic manner so as not to under-utilize the capital expenditure provisions.

2.2 Entering into Liabilities and Obligations

Audit Observation	Comments of the Accounting Officer	Recommendation
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Liabilities of Rs.787,632 that entered into in the year under review in relation to 07 expenditure subjects had not been stated in the Statement of liabilities and obligations.	There is no sufficient staff to reply by checking on this exactly.	Actions should be taken to prepare Statement of liabilities and obligations completely and accurately for the year.

2.3 Certification should be done by Accounting Officer

According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, although the Accounting Officer is required to certify in the following matters, it had not done accordingly.

Audit Observation

**Comments of the
Accounting Officer**

Recommendation

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| (a) | The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the Ministry and, though the efficiency of the system should be reviewed from time to time and necessary changes should be made to ensure that the system is running efficiently and, those reviews should be done in writing and a copy should be submitted to the Auditor General, Statements that such reviews had been made had not been submitted to the audit. | The comments had not presented in this regard. | Action should be done as per the provisions of Section 38 of the National Audit Act No. 19 of 2018. |
| (b) | Although the Chief Accounting Officer and the Accounting Officer should ensure that there is an effective methodology for the proper functioning of the internal audit function, according to the observations made in paragraph 5 of the report, that requirement had not been met. | Internal audit functions could not be commences due to not providing staff. | - Do - |

3. Operating Review

3.1 Vision and Mission

Audit Observation	Comments of the	Recommendation
	Accounting Officer	
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<p>In order to make Sri Lanka a competitive international hub for the gem and Jewellery industry, the Ministry should have played the following roles in creating policies conducive to the development of local industries through policy formulation and guidance in the field of gem and Jewellery industry.</p> <p>(a) Restricting the export of mineral resources without adding value and converting value added products into high value earning products.</p> <p>(b) Utilization mineral resources currently considered to be underground and inland marine by exploring through state-of-the-art technology to strengthen the country's production process.</p> <p>(c) Assist in formulating policies relevant to the subject of gem and Jewellery related industries.</p> <p>(d) Implementation of projects under the National Budget Investment Program.</p>	<p>Measures have been taken to formulate the policies and functions assigned to the Ministry. Its progress is shown in the performance report.</p>	<p>Under the new State Ministry, policies and plans should be formulated and the functions should be carried out efficiently in order to achieve the objectives.</p>

- (e) Implementing, monitoring and evaluating the subjects and functions and related policies, programs and projects of the National Gem and Jewellery Authority and the statutory bodies of the Gem and Jewellery Research and Training Institute functioning under the Ministry.

The Ministry has not yet paid adequate attention to fulfilling these functions and formulating policies and plans for the same.

3.2 Planning

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>In accordance with the provisions of paragraph 03 of Public Finance Circular No. 2/2020 dated 28 August 2020, the action plan for the year under review had not been prepared.</p>	<p>The action plan for September to December 2020 has been prepared. A copy of it was submitted.</p>	<p>The action plan should be prepared before the start of the year and implemented accordingly.</p>

4. Achievement of Sustainable Development Goals

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Although the Sustainable Development Goals has been identified, There was not enough attention paid to their implementation.</p>	<p>The information on Sustainable Development Goals is provided.</p>	<p>Action must be taken to effectively implement the identified Sustainable Development Goals.</p>

5. Good Governance

5.1 Internal Audit

Audit Observation	Comments of the Accounting Officer	Recommendation
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In accordance with the provisions of Section 40 of the National Audit Act No. 19 of 2018, No steps had been taken to establish an internal audit unit and implement internal audit activities.	Internal audit could not be commenced due to non-availability of staff.	An Internal Audit Division should be established and internal audit activities should be carried out in accordance with the provisions of the National Audit Act.

6. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
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The approved cadre for the year under review was 40, the actual cadre was 6. Accordingly, number of vacancies was 34.	The Ministry of Public Service, Provincial Councils and Local Government has been requested to fill the vacancies. The scheme of recruitment has been submitted for approval and its amendments are being submitted.	Urgent steps should be taken to fill the vacancies of the approved cadre considering the service requirement and to achieve the objectives of the State Ministry.