

Gem and Jewellery Research and Training Institute - 2021

1. Financial Statement

1.1 Opinion

The audit of the financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, 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 Financial Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2021, 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 Opinion

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 Management and Those Charged with Governance for the 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 intends 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 Section 16(1) of the National Audit Act No. 19 of 2018, it 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 Authority.

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:

- 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 higher 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 internal control.
- Evaluate the appropriateness of the accounting policies adopted by the management and the fairness of the accounting estimates used the related disclosures.
- 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 governing body of the Institute ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Observation	Comments of the Management	Recommendation
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<p>The course fees receivable remaining for more than two years amounting to Rs. 1,843,950 had not been recovered even by the end of the year under review. Similarly, even though a sum of Rs. 3,577,394 had been stated as due from the National Gem and Jewellery Authority for the courses conducted by the Institute for the Poverty Alleviation Project and the amount had not been shown as a balance due in the financial statements of the Authority and the recovery of this outstanding balance had become a controversial matter.</p>	<p>The Director General of National Gem and Jewellery Authority had informed us that a representative officer from the National Gem and Jewellery Authority will attend and check the operation of the furnace to take necessary actions to reimburse the relevant amount and will proceed to reimburse the expenses according to the report provided.</p>	<p>Necessary prompt actions should be taken to recover.</p>

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Treasury Circular No. 842 dated 19 December 1978 .	A Register of Fixed Assets had not been maintained properly showing the date of purchase of fixed assets, cost additions, disposals, revalued amount and depreciation.	The Register of Fixed Assets has been updated to reflect additions, removals, revaluation and depreciation in the year 2021.	Actions should be taken to maintain a regular Register of Fixed Assets.
(b)	Section 5(3) of Extraordinary Gazette Notification No. 882 dated 28 July 1995 in terms of Section 25(1) of the National Gem and Jewellery Authority Act No.50 of 1993	Although the provision of technical and advisory services including the manufacturing of machinery for the development of gems and jewellery industry should be carried out, said activities had not been done.	Programmes have been implemented for joint programmes with institutions such as Peradeniya University, Uva Wellassa University, Sabaragamuwa University, National Enterprise Development Authority, Atomic Energy Authority and Gemmological Institute Of Thailand due to the lack of Treasury allocations for obtaining the staff and technological infrastructure required for the production of machinery for the industry.	The provisions of the Extraordinary Gazette Notification should be followed.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a loss of Rs. 12,105,126 and the profit as against to that was Rs. 6,339,649 in the preceding year. Accordingly, there was a deterioration of Rs. 18,444,775 was observed. The decrease of courses income had mainly attributed to this deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although it was planned to provide 16 services to interested parties on Geuda Heat Treatment for during the year under review, only one service had been provided.	This Geuda Heat Treatment service has been provided as per the demands received from the industry and accordingly, the service has been provided for the sole request received. However, the entrepreneurs who have been emerged through the Heat Treatment Course conducted by our institute are doing heat treatment their gem samples by themselves and the same services are also provided to the industry. Because of that, we have resorted to get the service from our institute only for special occasions.	Actions should be taken to perform tasks as planned.
(b) An electric furnace purchased for Rs.10,977,344 in the year 2013 for burning gems had remained in idle for 6 years and during 2020-2021, this furnace was upgraded with spare parts	After the inaugural ceremony held on 11 February 2020 to put the furnace into public service, a research run was conducted from 26 February 2020 to 06 days. After that, due to the disruptions caused by the Corona epidemic	Because of the Institute has spent a lot of money for this, so this machine should be used effectively and efficiently.

and electrical circuits at a cost of Rs. 3,953,540 . The machine was used only for 05 research runs in a period of 14 days during 2020-2021 .

situation in the country, a re-run was done from 08 December 2020. But the following day, the run had to be suspended due to a fault in the control circuit of the furnace. After informing the respective agent about this, the necessary electronic devices were brought from the foreign parent company and the repair was carried out. However, more than 4 months have passed for that. Accordingly, the electric furnace has been running for a total of 20 days amid the above blockage occurred in 2020 -2022 .

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Gem Deposit Exploration and Evaluation Project which is being functioned in Sri Lanka for the period of 2017 - 2031 with a Rs.300.65 Million estimated cost has conducted gem deposit exploration in 50 Divisional Secretariat Divisions in the Districts of Monaragala, Badulla, Matale, Ratnapura and Polonnaruwa and carried out investigations were in 11 Divisional Secretariats located in 04 Districts where reports and maps were planned to be issued and final reports and maps had</p>	<p>Although it has been planned to be implemented and completed the Project in the Divisional Secretariats which were indicated by the audit, in considering as per the suitable staff for the Project works from the existing staff of the Institute until the staff is assigned , the said progress has also been achieved with the contribution of the present limited number of Geology and Mineralogy graduates</p>	<p>Arrangements should be made in the manner of operations of the Institute can be efficiently and effectively.</p>

been issued only in 08 Divisional Secretariats.

that is 3 officers and 4 other officers who have currently left the service by now. Only three officers are actively contributing to the Project by now. It is stated that the Project will be carried out at the Divisional Secretariat Level according to an identified priority list in order to make maximum use of the minimum staff available related to shortage of staff and expansion of gem deposits in the country based on scientific and practical reasons.

- (b) Although the details of 112 lands that had been identified from the year 2019 up to now as the gems were available had been provided to the Gem and Jewellery Authority, these lands had not been considered for auction. Because of the Authority had decided that research mining should be carried out to check whether gems are found again in the lands that have been identified by the Institute as gems available and due to conducting research without proper coordination in between 2 institutions, there had not been a productivity in the researches already being carried out.

The landowners who have given lands to the National Gem and Jewellery Authority in the Tavalama Divisional Secretariat have been called to the Thavalama Divisional Office by that Authority and we have been informed that the actions would be taken to grant gem mining licenses to those landowners.

Arrangements should be made to effectively use the results of the research with the proper coordination in between the 2 institutions.

- (c) Although it is expected to get 25 per cent of the income to the Institute from the auction of the lands identified as the gems available by referring to the National Gem and Jewellery Authority and a sum of Rs. 174.15 Million of that amount will be used for the project between 2022-2031, obtaining that amount and implementation of the Project ahead was in an uncertain condition.
- The National Gems and Jewellery Authority has concurred to consider all suitable gem potential lands within all Divisional Secretariats identified through the Project, for mining. It is expected to get the desired income to this Institute.
- It should concur with the National Gem and Jewellery Authority and necessary measures should be taken to effectively implement the Project.
- (d) The Institute was providing training to school students for gem cutting and polishing and jewellery production under “13 Years Continuing Education Programme” as per a Memorandum of Understanding between the Ministry of Education and the Institute in 2019. Even though 185 students had been sent for gem cutting and polishing and 227 students for jewellery making course during the period of 2019-2021, only 96 and 151 students had been trained in the Institute for this purpose.
- Due to it had to be locked down the country for a longer period of time as a result of the unexpected situation in the country during 2019-2021 due to the Easter attack and the Corona epidemic, many of the training courses that were planned to be implemented during this period could not be formally completed within the expected period and the course duration was longer than usual period. Accordingly, because the institutional physical and human resources are not at a sufficient level to recruit new students and start new courses without completing the courses which are being in operation, the students who have been sent by
- Training courses should be properly planned and implemented in order to meet the objectives of the Institute.

the Ministry under the “13 Years Continuing Education Programme” could not be recruited within the relevant period itself.

3.3 Delays in Projects or Capital Works

Audit Observation

The Project conducted to introduce the methods in order to increase the colour and clarity of semi-precious stones, that was implemented under the provisions of the National Science Foundation, had been completed on 21 December, 2020 . Actions had been taken to purchase a Pressure Vessel equipment which had to be purchased in 2018 for this Project on 29 April 2021 on the provision of the National Science Foundation.

Comments of the Management

Even after calling the prices several times to buy this device, during the relevant period of this Project, which is implemented on the basis of the provisions of the National Science Foundation, and also tenders for suitable equipment were not received, quotations for the desired equipment were obtained in calling for quotations done at the end of the Project. Accordingly, the relevant equipment was ordered and the delay has occurred because it has taken some time to receive the device. The National Science Foundation has been informed about this and the device is being used at present for other research purposes.

Recommendation

Procurements should be carried out to meet the objectives of the Project during the stipulated time period.