

## **National Gem and Jewellery Authority - 2021**

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### **1. Financial Statement**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Gem and Jewellery Authority 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, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based 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 the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority'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**

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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 Authority'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 Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- 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 Audit Observations on Preparation of Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Accounting Standards**

<b>Non-compliance with reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A sum of Rs.104,374,754 to be adjusted under investment activities had not been adjusted for the increase in work-in-progress in terms of Sri Lanka Accounting Standard 7.	The value of work-in-progress for Ratnapura building amounting to Rs. 7,979,039 has been capitalized and shown under Note 03 Non-Current Assets. The balance has been adjusted to the balance payable.	Actions should be taken in terms of Accounting Standards.
(b) Due to failure to review the effective life of non-current assets in terms of Paragraph 51 of Sri Lanka Accounting Standards 16, Actions had not been taken in respect of the estimated error in the useful life of the assets which were fully depreciated but already in use cost at Rs.202,027,608 to revise and indicate the accurate	All motor vehicles will be entered in the accounting books just after the revaluation. Valuation of other assets should have been done separately for the assets belonging to each category. According to the decision of the management, steps will be taken to enter in the accounts in the future.	-do-

carrying value in the financial statements in accordance with Sri Lanka Accounting Standard 8.

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| (c) | The carrying value of the property, plant and equipment remained at the end of the year under review, a sum of Rs. 3,907,223 had been deducted as provisions for impairment in contrary to the provisions of Sri Lanka Accounting Standard 36 .   | The Authority has made provisions for impairment for the Naula Building and Belideniya Building which were undertaken on a long-term lease basis. After that, the provision for impairment has been made for 02 equipment owned by the Assay section in the year 2021 . | -do- |
| (d) | Three exhibited gemstones valued at Rs. 371,842,648 deposited by the Authority in a state bank had been revalued to Rs. 765,316,000 during the year 2020 and the revalued amount had been shown only as a Note to Accounts in terms of Sri Lanka Accounting Standards 16 without making any adjustments in books. | Actions will be taken to indicate the value of it amounting to Rs. 765,316,000 in the accounts of the next year.  | -do- |
| (e) | The compensation which was expected to be paid for 06 cases as at the end of the year under review amounting to Rs.6,733,600 had not been shown in the Notes to the financial statements as contingent liabilities in terms of Sri Lanka Accounting Standards 37 .  | Since an actual credit has not occurred in that regard even by the date of making the accounts, actions will be taken to review and indicate in accounts in the year 2022 .   | -do- |

## 1.5.2 Accounting Policies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
When identifying impairment losses related to assets, although those assets should be reviewed and the impairment loss value to be allocated in relation to it should be estimated annually as per the accounting policy of the Authority, same value as Rs.200,000, Rs.1,407,972 and Rs.1,433,947 for other assets, receivables and deposits and advances respectively had been adjusted to the accounts as impairment losses from the year 2018 to the year 2021 .	The amount of Rs. 200,000 included in the impairment losses incurred in relation to the current assets of the Authority has been invested in the Gem & Gem Institute. This institution is not being functioned and the information related to it cannot be found. Actions will be taken to review and write off the impairment losses of Rs. 1,407,972 and Rs. 1,433,947 for other assets and deposits receivable.	It should act in accordance with the accounting policies of the Authority.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Accounts Receivable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The lease agreement entered into with a private company by the Sri Lanka Gem and Jewellery Exchange which was located at the World Trade Centre was completed on 31 October 2021 and the security bond amounting to Rs. 16,368,300 had not been recovered even by 30 April 2022 .	All the shops should have been given to this Institute with clear proof in order to release the security deposit amounting to Rs.16,368,300. Nevertheless, Shop No.s 30, 36 and 47 had not been handed over to the Authority by the relevant shop owners by 31 October 2021 and although reminders have been given for shops No. 33 and 37, the arrears of rent have not been paid. Accordingly, a private company has	Proper arrangements should be made to recover the security bond.

intervened and handed over the stock verification to that company. Any kind of acquisition cannot be done because of pending litigation.

## 1.6.2 Payables

----- <b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Even though the balance receivable from the Authority had been indicated as Rs. 3,577,395 as per the accounts of the National Gem and Jewellery Research and Training Institute, the balance had not been included in the financial statements of the Authority.	The expenses confirmed for a sum of Rs. 884,500 payable for gem cutting courses from Institute to Authority has been paid from Jewellery Development Fund. The Authority has paid only the payment that can be made as per the terms of the agreement reached regarding the relevant course.	Arrangements should be made to be agreed in between the two parties and settle the balances.
(b) It had been failed to settle a balance of Rs.37,114,917 payable for more than 5 years even by 31 May 2022 .	Actions are being taken to settle.	Actions should be taken to settle promptly.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) National Gems and Jewellery Authority Act No. 50 of 1993			
(i) Section 15 (1)	Because the National Gems and Jewellery Authority is the only authority responsible for issuing licenses to carry on the gem industry in Sri Lanka, although the Attorney General's Department has notified that the main regulatory authority related to the gem industry subject is directly engaged in gem mining projects with the third party against Section 15(i) of the Act, 04 such mining projects had been implemented during the year under review.	The Authority has not directly engaged in gem mining projects as per the recommendations given by the Attorney General's Department by letter No. E/17/19/NG&JA dated 04 June 2019 and arrangements have been made to issue licenses for gem mining to the second party. It is indicated that the Authority has entered into an agreement with the second and third parties regarding the proper supervision of the relevant project there and to take over the gem found in the project and to retain the Royalty from the gem sales income and release the remaining amount to the related license holder.	Actions should be taken in terms of the Act.
(ii) Section 15 (2)	Methodologies had not been prepared to register and regulate the private laboratories which are running for testing and issuing certificates of gems.	The Board of Directors has taken actions to consider the grading of laboratories and according to the instructions given by the Board of Directors, a Board Paper has been prepared again and actions will be taken to submit it to the next Meeting of	-do-

(iii) Section 17 (1)	Although a person shall not carry on jewellery business at any place unless the place where such business is carried on is registered with the Authority, the Authority had not made proper regulations in this regard.	Board of Directors . A separate division has been established to function with the jewellery sector with effect from the year 2021 and a sum of Rs.1,534,104 had been collected by that division by issuing registration and licenses (March to December 2021) focusing on jewellery shops and gem shops in the Western Province and some other limited provinces even under the corona situation of the year 2021.	Orders should be prepared and proper regulation should be made regarding the Annual Registration.	
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	(i) Financial Regulation 486	Although the value of the cheque should get recovered in cash as soon as possible when the cheques are returned, recoveries had not been made for 02 returned cheques for more than 9 years valued at Rs. 178,840 .	There was no sufficient information to take legal actions on the 09-year-old returned cheques valued at Rs 178,840 .	Actions should be taken in terms of the Financial Regulations.
	(ii) Financial Regulation 756	A physical survey on non-current assets in the year under review had not been carried out even by 22 February 2022 .	Due to the prevailing fuel crisis, it was not possible to carry out the physical survey in Naula, Monaragala and Matara offices so far and actions will be taken to complete in the next year.	-do-



- (c) Public Finance Circular No. 01/2012 dated 05 January 2012
- Although only construction work contracts can be awarded to Samurdhi Community Based Organizations/ Samurdhi Regional Organizations, the authority for the societies had not been delegated to carry out gem projects. However, the Authority had entered into agreements with Samurdhi Community Based Organizations to carry out the works of 4 gem projects and authorized them to carry out those works.
- The Samurdhi Community Based Organizations are the official societies which represents all low income earners in the respective Divisions. Accordingly, as in the previous low-income projects which implemented, in this project also 07 official Samurdhi Community-Based Organizations in the two divisions on both sides of the river which were confirmed from the respective Divisional Secretaries acts as the license party here.
- Actions should be taken in terms of the Circular.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review was a profit of Rs. 2 04,372,389 and the corresponding profit was Rs. 25,577,610 for the preceding year. Accordingly, an improvement of Rs. 178,794,779 in the financial result was observed. The increase of project income by Rs. 123,475,200 had mainly attributed to this improvement.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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(a) An amount of Rs.7,234,920 for setting up stalls in the International Expo Exhibition held in China in the year under review and an amount of Rs.41,553 for publishing	The intention of the National Gems and Jewellery Authority in organizing this exhibition was to further promote the existing demand for Sri Lankan gems in China by facilitating Sri Lankan businessmen and thereby increase	Expenses should be incurred efficiently and effectively with proper consideration and attention.

newspaper advertisements for selecting exhibitors had been incurred and as a result of Sri Lanka was not being able to represent this exhibition, the total expenditure incurred amounting to Rs. 7,276,473 had been an idle expenditure.

the foreign exchange that can be brought into the country. Accordingly, I would like to emphasize that the financial contribution made by the Authority is not an idle expense because of the exhibition was carried out by the Authority, Laksala and Sri Lankan gem businessmen residing in China.

(b) After establishing Gem and Jewellery Research and Training Institute, steps had been taken to identify the areas of abundant gems around Kumbukkan Oya in Badalkumbura Divisional Secretariat and map them and inform to the Authority also under the gem exploration projects carried out by the Institute incurring Rs. 300.65 Million. Without referring to these reports maps it had prepared an estimate of Rs.5,754,000 and handed over to a company to perform a test mining process to check whether there are gems in the land under Kumbukkan Oya Reservoir and an advance of Rs. 750,000 had been paid in the year under review.

This is not just exploratory mining to determine whether the gems are available in the area and it is kindly informed that it was an exploratory mining operation to verify the ability to extract gem resources without damaging the reservoir site. The relevant test mining process has been done as above by calling the quotations in accordance with the procurement procedure. Accordingly, an advance amount has been paid to the selected organization for the work

Realizing the purpose of setting up Gems and Jewellery Research and Training Institute, the tasks that can be accomplished by that Institute should be done by that Institute itself.

(c) An income of Rs. 1,793,300 received by auctioning gems had been paid to a fake society not registered under the Samurdhi Development Department on the request of 02 Samurdhi Community

Upon the written request of the contracted community-based societies whereas the cheque related to joint accounts of the members of the societies nominated by them has been issued and however, issuance of a cheque to the relevant Divisional

Government funds should not be remitted to private accounts and individuals without having proper Authority.

Based Organizations and the Authority had taken actions to remit another amount of Rs.12,507,556 to 02 personal joint accounts of 04 officers of Samurdhi Societies instead of sending cheques in the name of Samurdhi Societies.

Secretary is compulsorily done as received the 10% portion of benefits contracted to be paid compulsory to low-income beneficiaries. Obtaining the agreement of the contracted organizations in the names of 04 officers of the Samurdhi Societies as parties through affidavits and cheques have been given with the approval of the Chairman. At the time of entering into the agreement with the Samurdhi Society, the officials who issued the cheques in the respective agreement also signed as witnesses and the officers of the two Samurdhi Society had also issued authorization letters.

- (d) Although a service fee of Rs.1,635,000 has to be charged for various tasks from Licensee who bears No. CB 2600 A file which was given license for mechanical mining as per the Gazette Notification No. 2165/2 dated 02 March 2020 on charging fees, only a service fee of Rs. 48,000 had been charged.

A written request had been made by the licensee on 22 September 2021 for the extension of the 2021/2022 Annual Mechanical Mining Permit in relation to this file. According to the said request, extension activities were carried out as per the current system of the Authority. Although the licensee has paid all other fees in the payment of fees, the management assistant has been unable to collect the security deposit due for the increased 5000 square feet due to a mistake. Therefore, I also sent a letter making aware the licensee to pay the outstanding amount.

As he does not have enough money to pay those fees, a request has been made to provide only the existing 10000 square feet. As per the said request, the executive officer has observed whether the licensee had

Correct service charges should be charged as per Gazette Notification.

done excavation work more than 10000 square feet.

As per the said implemented officer's recommendation, actions have been taken to issue a new license by cancelling the mining permits issued by me dated 12 November 2021 . It is kindly informed that the all fees to be recovered at the time of extending the annual mechanical mining permit were recovered except the Rs. 1000,000 as the special guarantee to be paid for the 5000 square feet which had stipulated to be increased, ordinary security deposit amounting to Rs. 250,000 and the annual supervision fee of Rs.50,000 payable for that.

(e) After obtaining the approval of the National Gem and Jewellery Authority Act No. 50 of 1993 in the year 1993, steps had not been taken to amend it in a timely manner in the year under review.

Four discussion sessions regarding amendments to the Act were held with Gem and Jewellery Industry Associations during the year 2021 and three discussion sessions were held with the Secretary to the Ministry In Charge and with the internal officers of the Authority regarding their suggestions and ideas. Accordingly, amendments to the proposed Act along with the proposals finally received and on the request of the Unions of Jewellery Manufacturers have to be forwarded to those Unions.

Actions should be taken to amend from time to time.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A Gem Laboratory had been set up in Galle in 2016 at the request of the gem and	The Galle Laboratory was open only for 24 days in the year 2021 and an income of	The operations of the Authority should be carried

jewellery market, hub of tourism and the business community to test gemstones and determine gold content. The said laboratory had been opened only for 24 days during the year under review and only an income of Rs. 175,600 had been received during that period and no services whatsoever had been provided during that period because of gemmologists were not assigned for the services during a period of 04 months of the year under review.

Rs. 175,600 was received during that period. It is indicated that because of the rapidly spreading Covid 19 pandemic it had to carry out the works of the Galle laboratory only one day per week until the epidemic situation subsides and periodic shutdowns of the country, suspension of inter-provincial transport facilities and the quarantine of several of our gem scientists had caused the Galle laboratory to be closed for a long time.

out efficiently and effectively.

(b) A special security deposit as Rs.4500, Rs.9000 and from Rs.600,000 to Rs.5,000,000 for mechanized mines up to 3000-4000 square feet had been recovered from the miners as a special security deposit for backfilling and rehabilitation of gem mines excavated during issue of gem licences. There was no proper regulation on whether the gem mining pits were closed and the relevant lands were properly restored. An amount of Rs.8,980,350 had not been recovered by the miners during the year under review and the Authority had incurred only Rs.3,099,934 for land restoration.

According to the terms of the gem license issued by the Authority, applying of the security deposit will be made within 02 months after the expiry of the mining license after closing respective mines and when not, it will be added to the income of the Authority because the related security deposit will be confiscated. Closure of unclosed mines for which security deposit will be forfeited is carried out by the Authority.

A proper regulation should be made on whether the gem mining pits have been closed and the relevant land has been properly restored.

(c) The following matters were observed during the audit test check carried out on gem mining projects owned by the Authority.

- (i) The defects such as the failure to obtain the required approval from the Irrigation Department for the Watawala Maungin Gem Mining Project, although the Mahaweli Authority had given consent for this Project on the basis of getting 40 per cent from the land auction, implementation of the Gem Mining Project by the Authority with a Samurdhi Community Based Organization without auctioning, demanding of profit shares by several government agencies due to failure to start the Project properly, loss of large revenue which could be obtained by the Authority at once due to failure to arrange auction activities were observed. Similarly, the approval of the Central Environment Authority was given to excavate subject to a number of conditions so as not to cause environmental damages and using sandbags in the river to make the water flow from one side, digging the bottom of the stream and pile up the soil, piling up large mounds of soil in the river banks and installing of the gem washing machine near the stream were observed at physical audit test check.

This problem of illegal gem mining occurs in places where gem resources are abundant and excavating instead of places where gems are concentrated at a distance of one kilometre or elsewhere as recommended by the Irrigation Department is futile. Due to unauthorized gem mining in these places even the stability of the bridge at that place was damaged. Due to unauthorized mining, the river banks and the environment had been severely damaged and for that reason, the Central Environment Authority had given approval for the removal of the gem resource under the supervision of the National Gems and Jewellery Authority.

Although the Authority cannot directly engage in gem mining projects with third parties as per the Act, actions should be taken to overcome the defects with proper approval on these projects that have been commenced.

- (ii) An entrepreneur and 02 Samurdhi Societies were

Due to the prevailing corona epidemic situation, the

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selected for the project of mining the gems in Kalu Ganga Haraniawaka at a value of Rs.125,000,000 and although the committee appointed for the supervision of this Project should arrive to the Project Site once in 02 weeks and check and complete a checklist and hand it over to the Authority after signing the participated officers, it had not been so handed over and it was observed that the Project was not properly supervised.

(iii) Even though the approval has been requested from the Central Environment Authority, Irrigation Department, National Building Research Institute and Kiriella and Ayagama Divisional Secretary for the Nidhanaya Gem Mining Project, approvals had not been received. As the bids had not been invited to engage an entrepreneur for this Project, a high bid amount that should have been obtained, had been lost. It had been entered into agreements with 07 Samurdhi Community Based Organizations for extraction of gem deposits and agreed to give 60 per cent of the income from the sale of gems to those Societies and were get involved in the Project activities without looking into

officials and other groups who had worked in the Project were suffering from the disease from time to time and due to that epidemic situation and heavy rains and floods the project works have inactive for a long time during the last half of 2021. The Project had remained dormant for a long time and arrangements will be made to prepare a checklist based on the audit instructions and call the relevant committee officers to monitor the Project which is currently in progress.

Although the approval has been requested for the implementation of the Project to prevent unauthorized gem mining in areas difficult to control the unauthorized gem mining promptly with the intervention of the Authority, granting that approval has delayed. As a result, this Project has been commenced based on the President's Secretary's Guideline dated 07 December 2016 to prevent unauthorized access to these sites and misappropriation of gravel.

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the financial capacity of these societies.

(iv) A number of 1289 and 1975 gem deposits extracted from the Kalu Ganga Haraniyaka and Nidhanaya Gem Mining Projects respectively had retained on the project site without mining.

The gravels collected at the end of December and January 2022 have been stored and after sufficient gravels were collected, the gemstones received, were quickly and safely deposited in the bank . Auction of the gems recovered in late December and January 2022 during washing of related gravel have also been carried out for Rs.54,366,996.80 on 24 February 2022 .

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(d) An entrepreneur and 2 other Samurdhi Societies had been selected for a value of Rs. 5 Million for gem mining in a part of a stream of 13.5 perches of Monaragala Badalkumbura Gadawila Gem Mining Project. The entrepreneurial party had excavated in an area of 9.5 perches of land and sought permission again to excavate the remaining 4 perches. A new agreement had been entered into by the Authority because of the Decision of the Board of Directors to re-engage 2 Samurdhi Societies and excavate under the second superintendent of the place without extending the relevant contract period.

If the Gem Mining Project is implemented and the small remaining unmined areas have been abandoned, the increase of illegal activities will become inevitable. As there was no suitable background for an auction, the relevant project has been implemented entering into an agreement with Samurdhi Community Based Organizations (confirmed by the Divisional Secretary) in the two nearest Grama Niladhari Divisions with the approval of the Board of Directors as a practical solution to generate a revenue for the government.

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### 3.3 Underutilization of Funds

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	<p>The Jewellery Development Fund was established in the year 2008 by charging an annual registration fee of Rs.5000 from the jewellery manufacturers for the development of the gems and jewellery industry and there was no specific plan or method to use the Fund for the development of the industry and the funds of Rs.82,536,818 had been remained in idle at the end of the year under review.</p>	<p>The money collected through the registration of individuals and businesses engaged in the jewellery industry has remained in a special fund and the procurement process has been commenced to obtain the relevant artisan equipment and tools as approved under Staff Paper No. 2176 to use that money for the advancement of artisans engaged in the jewellery industry and a newspaper advertisement was published on 08 April 2022 on this regard.</p>	<p>Funds should be efficiently utilized to achieve the desired objectives.</p>
(b)	<p>A charge of Rs.500 each had been credited to the Mining Welfare Fund during the issuance of mining licenses for the purpose of regularizing and controlling the safety measures to be taken to protect the life and limb of those working in the gem industry and jewellery industry from danger in terms of Section 14 (n) of the National Gems and Jewellery Authority Act No. 50 of 1993 . The balance of this Fund was Rs. 34,154,875 and the intended objectives of this Fund had not been fulfilled at the end of the year under review.</p>	<p>Arrangements have been made to increase the benefits provided in respect of mining accidents to a significant level during the year 2020 to avoid underutilization of this Fund. Similarly, as this Fund incurs compensation for unforeseen accidents, it is pointed out that it is necessary to maintain an adequate Fund.</p>	<p>Funds should be efficiently utilized to achieve the desired objectives</p>

### 3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Because of the insecure condition that damaged the building of the Authority as a result of the construction works done by a private company near the building maintained by the Authority, it has been moved from the place in the year under review on the recommendations of the National Building Research Institute. In this, a private building had been rented for a short period from 03 September, 2021 without following the procurement procedure.	On the recommendation of the National Building Research Institute, because of the collapse of the Head Office Building of the Authority on 16 July 2021, only the essential duties on Authority matters were carried out at the State Ministry of National Gems and Jewellery at Narahenpita. Due to lack of adequate space in the premises, several officials of the Authority fell ill due to the Covid-19 disease. However, the Authority had to find a building to run the temporary office due to the failure of the Renuka Group to provide the building as initially agreed for the Authority. For that, the Authority has inspected 5 locations and it was observed that the most suitable building among them for the Authority is the building at No. 12, Maxons Tower, Alfred House Garden, Colombo 3 where the Authority is currently established.	Procurement procedure should be followed.
(b) Subsequently, quotations had been called by following the procurement procedure and the quotations for the currently established building	The Authority was informed by the Renuka Group that they could provide as an amount of Rs. 3,800,000 per each a for a period of 4	Procurement should be carried out in a transparency manner.

and for another building amounting to Rs.4,500,000 and Rs.3,000,000 had been received respectively and the Authority that offered the highest price was selected as the existing building, a lease agreement had been entered into for the period from 31 August 2021 to 31 August 2023 to be covered the rental period also without following the procurement procedure. Because of the institution that had submitted the lowest bid was not selected, the Authority had to overpay a sum of Rs. 36,000,000 for the 2 years of rent.

months only to get the building on lease basis. However, on the condition that the failure of a company or an owner to give a building for a period of 4 months, the contracts have been signed for a period of 2 years with 3 months prior notice to be able to quit. After that, the Head Office was established at the new location after the signing of the agreement on 2 September 2021. Simultaneously, the procurement activities have been commenced as per the instructions of the Board of Directors and 2 organizations have submitted the prices for that and the prices of them were Rs. 4,500,000 and Rs. 3,000,000 respectively. However, Due to the technical defects in the building belonging to the institution that had submitted the lowest price and non-compliance with the purpose of the Authority, the Technical Evaluation Committee and the Procurement Committee have recommended that the building at No. 12, Massons Tower, Alfred House Garden, Colombo 03 is the most suitable building for the Authority to acquire on lease basis. Accordingly, it is kindly informed that the office activities are currently

being run with the approval of the Board of Directors without cancelling the agreement. It has been planned to minimize the cost that has overpaid for this new building by providing ground floor along with middle floor for shops on lease basis and the procurement process has been commenced by now.

- (c) A sum of Rs. 14,967,592 had been spent as at the date of audit on 25 April 2022 for telephone and intercom connections, networking, carpeting, structural partitioning of this building .
- Since it is not possible to commence office works without making computer networks, phone system and internal phone system, transportation of office equipment and the basic partitioning to be done in gem laboratory and gold determination laboratories, above activities have been done. In this, due to the sinking of the Authority Building , a civil case has been filed against the Renuka Company for the recovery of the expenditure incurred.
- Actions should be taken promptly to recover the money incurred by the Authority from the relevant parties.
- (d) A sum of Rs. 53,244,339 had to be incurred by the Authority by 22 April 2022 the date of audit in order to establish the Authority in the new building and the money was not recovered from the private company which had carried out the construction works by causing damage to the building where the Authority was run.
- Since the instructions and approval has been received to file and maintain a civil case for recovery of all damages and losses caused to the Authority because of "Galleface Properties" as per the Decision of Cabinet of Ministers, agreements have not been entered into with the institute "Galleface Properties" for the recovery of compensation on the legal requirement of not
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being prejudiced in the conduct of said litigation. The said expenses have been sent to the Legal Division in order to recover all the expenses incurred by the Authority in establishing the Authority in a new place on lease basis.