

National Gem and Jewellery Authority – 2019

1.1 Qualified Opinion

The audit of the financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the 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 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 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2019, 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

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 the Financial Statements

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 intend 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, the Authority 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 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 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 Authority'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 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 Company 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 the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority 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

Authority is 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.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

Non Compliance with reference to particular Standard	Management’s Comment	Recommendation
(a) Contrary to the Sri Lanka Accounting Standard 7, instead of showing interest income of Rs.159,732,734 and dividend of Rs.130,697 received during the year that should have been shown as cash inflows under investing activities in the cash flow statement the interest income of Rs.160,360,015 and dividend income of Rs.689,697 relevant to the year under review had been shown.	Interest income of Rs.160,360,015 and dividend income of Rs.689,697 stated in the comprehensive income statement had been shown as interest income and dividend income respectively in the cash flow statement. Accordingly, action will be taken to disclose only the interest income and dividend income actually received during the year.	In the preparation of cash flow statement, provisions in the standard need to be complied with.

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| <p>(b) The useful life of non-current assets had not been reviewed annually in terms of Sri Lanka Accounting Standard 16 by the Authority. Twenty Six motor vehicles costing Rs.108,582,091 fully depreciated are being still used. Accordingly, the error in the accounting estimates had not been revised in terms of Sri Lanka Accounting Standard 8 and the fair value had not been disclosed in the financial statement.</p> | <p>In terms of section 29 of the standard No.16 the Authority's policy in accounting fixed assets is at cost. However, as indicated in audit in 2017, the revaluation of the vehicle category had been started in the year 2017, but the assessment value of one vehicle was not received by the end of the year 2019 from the Department of Valuation. This matter is disclosed in the schedule 3 and all vehicles will be again revalued before the end of the year 2020.</p> | <p>Action needs to be taken in accordance with the standard.</p> |
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1.5.3 Accounting Policies

Audit Observations	Management's Comment	Recommendation
<p>According to the accounting policy of the Authority, the brought forward values of property, plant, equipment and Intangible Assets have to be reviewed every year and be adjusted in the accounts. Nevertheless, without being reviewed so the total value of property, plant and equipment, accounts receivable, deposits, advances and other assets amounting to Rs.5,976,657 had been adjusted to the impairment loss.</p>	<p>Since the information on impairment loss of property, plant, equipment and intangible assets was not reported in the year 2019, the brought forward balances had been shown in the accounts.</p>	<p>Action to be taken in accordance with accounting policies.</p>

1.5.3 Accounting Deficiencies

The following observations are made

	Audit Observation	Management's Comment	Recommendation
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(a)	Due to a court case exists between the land owners in respect of the payment of 40 per cent share of the profit payable to the land owners from auctions of gem lands, the relevant profit shares totaling Rs.120,713,647 had been deposited in the temporary surplus Trust Fund account of the Treasury in the years 2016 and 2017 with the approval of the cabinet of ministers. In lieu of showing this amount as a deposit, it had been brought to accounts as expenses of the respective years. This had been informed by the Manager (Finance) of the Fund by this letter dated 22 June 2020 as well.	Funds had been released to the Treasury from the income received by auctions of Bagawanthalawa gem lands in the years 2016 and 2017. This money had been paid to the consolidated fund as per written instructions given by the Department of Public Enterprises. Action will be taken to account it as a deposit in future as mentioned in audit.	Action to be taken for correct accounting.
(b)	Even though, action had been taken to revalue 25 vehicles of the Authority in the years 2017 and 2018, one vehicle had not been revalued. Being completed the task steps had not been taken to account the correct value even in the year under review.	The valuation of 27 motor vehicles had been assigned to the Department of Valuation on 15 May 2017. Accordingly, 26 vehicles had been assessed and relevant reports had been presented but the valuation report of one vehicle had not still been given. There is an ability to get the vehicle valuation reports by calling for quotations from the private sector.	The correct value need to be accounted having being valued from the Department of valuation.

1.5.4 Unauthorized Transactions

The following observations are made.

	Audit Observation	Management's Comment	Recommendation
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(a)	Of the rent receivable for trade stalls given to the small scale and medium scale traders from the World Trade Centre on rent basis by the Authority, outstanding rent of the year under review amounting to Rs.4,476,521 had been written off as a non-recoverable balance without the approval of the Board of Directors.	Legal action has already been initiated by now to recover the balances with high probability of not being recovered as at 31 December 2019. Similarly, the provision for bad debts had been made for balances exceeds the deposit money.	Action needs to be taken to get the relevant approvals and to recover the income receivables.
(b)	When auctioning gem lands, gemstones and vein of mineral ores in terms of the powers vested in the Authority, procurement guidelines are not followed. Being set any other guidelines therefor, approval of the Ministry of Finance had not been obtained.	In auctioning gem lands the government right of gem mining is disposed of to a second party for a limited period. Vein of mineral ores find in development projects are auctioned by using special methods without hindrance to such development works and getting a maximum revenue to the Government Auctions are carried out being considered the specialty of this industry and established precious guidelines.	Action needs to be taken to get the approval for specific guidelines.

1.5.5 Accounts Receivable

The following observations are made.

	Audit Observation	Management's Comment	Recommendation
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(a)	In the extension of mechanical Gem mining licenses annually, a recoverable service charge totaling Rs.195,000 from 2 miners and the mine supervision charges totaling Rs.1,600,000 from 14 miners had not been recovered.	Action had been taken to recover the amounts under charged by the Colombo and Moneragala Regional offices for mechanical mines. Due to heavy rains and floods in May and June in Ratnapura and Ehaliyagoda areas, non-mining, temporary suspension of mining in certain pits, taking more time to renew the license of mechanical mines,	Action to be taken to recover the relevant fees.

monthly mine fees had not been recovered for that period.

- (b) An expense of Rs.500,000 relating to an exhibition held in the year 2018 was still shown as a deposit in the accounts. This payment had been made to the Banadaranayake Conference Hall for the Facet Sri Lanka exhibition held in the year 2018. Since the total cost of exhibition exceeded the amount of deposit, the sum of Rs.500,000 could not be obtained. Need to be correctly accounted.

1.6 Non –Compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

	Reference to laws, Rules and Regulations etc.	Non-compliance	Management’s Comment	Recommendation
(a)	Section 15(2) of National Gem and Jewellery Authority Act No.50 of 1993.	Methodologies to register and monitor the private laboratories operate for testing Gems and issue of certificates had not been set.	Relevant legal advice had been given by letter No.NGJA/ ๑๒๓๔ and the letter dated 19 March 2019.	Need to be complied with the provision of the Act.
(b)	Section 13 (8) of the Finance Act No.38 of 1971.	Report of the Auditor General in the preceding year had not been replied in terms of Section 13(7)(a) of the Finance Act.	Audit report had been discussed at the Audit Management Committee and replies had been reviewed with the decisions of the Board of Directors.	Action need to be taken in terms of the provision in the Finance Act.
(c)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i)	Financial Regulation 142(2)	Before being realized the service charges of Rs.1,508,707 services had been provided by the Assay Office, during the period from 2018 to February 2019.	This money had already been fully recovered. Services are provided only after being recovered the charges hereafter.	Action need to be taken in terms of Financial Regulations.

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| (ii) | Financial Regulation 396 | Action in terms of Financial Regulations had not been taken in respect of 2 cheques valued at Rs.178,000, received before 10 years but dishonored. | Action had been taken by the National Enforcement and Regional Development (Colombo) and Export Promotion Division in respect of dishonored cheques. | Action need to be taken in accordance with Financial Regulations. |
| (d) | Financial Regulation 371 as amended by Public Finance Circular No.03/2015 of 14 July 2015. | Advances had been given to an officer in 11 occasions in excess of Rs.100,000, settlement of advances totaling Rs.280,000 given in 15 occasions after delays of 15 to 40 days, the total advances of Rs.101,900 given in 11 instances without considering the requirement and of the total advances of Rs.435,700 given in 28 instances, more than 50 per cent had been refunded. | Since the number of members of the Board of Directors consists of 11, exceeding the limit of Rs.100,000 is unavoidable for the meetings of the Board of Directors. On the problems arisen in getting goods and services, these advances had not been settled within 3 days. Made aware that advances given should be settling soon. Letters had been sent to the relevant Divisions to explain reasons for setting the total advances again without being spent. | Action needs to be taken in terms of circular instructions. |
| (e) | Section 13.4 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. | An officer not fulfilled the required qualifications for the relevant post had been appointed to act in the post of Director General. | Under the Section 23 of the National Gem and Jewellery Authority Act No.50 of 1993, this officer had been appointed to act in the post of Director General in terms of a written order of the Minister in charge of the subject on the approval of the Board of Directors. | Action should be taken in terms of the provisions in the Establishments Code |
| (f) | Paragraph 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003. | Annual reports in the years 2017 and 2018 had not been tabled in Parliament even up to the date of Audit, 15 May 2019. | Annual reports relating to the years 2017 and 2018 had been referred to the line Ministry to table in Parliament. | Circular instructions need to be followed. |

- (g) Letter No.DMS/Policy/03 of 01 November 2013 of the Director General of Management Services. The new schemes of recruitments for 32 posts had not got revised and approved. Schemes of recruitments for all approved posts of the Authority had been drafted and referred to the Department of Management Services on 04 March 2020. Action needs to be taken as per instructions.

2. Financial Review

2.1 Financial Results

The operation of the year under review, had resulted in a profit of Rs.162,435,579 as compared with the profit of Rs.121,557,720 for the preceding year. Accordingly, an improvement of Rs.40,877,859 in the financial result was observed. Increase of testing charges recoveries by Rs.22,171,192, interest income by Rs.32,015,292, recoveries for baco services by Rs.12,228,750 and Gem mining revenue by Rs.5,578,800 and the decrease of foreign exhibition expenditure by Rs.9,903,197 had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Management's Comment	Recommendation
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(a)	Mines existed in 14 plots of Gem lands of Bagawanthalawa Chapaltanwatta which have been auctioned by the Authority, had not been closed down by land recipients. Action had not been to confiscate deposits kept by land recipients.	Since there will be vein of mineral ores in the mines further, and it was planned to carry on project in future, those quarries were not closed. However, since the estate companies had rejected to acquit plots of lands, primary action had been taken to close down mines.	Mines need to be closed down.
(b)	A sufficient monitoring system or facilitating in respect of import of gold to Sri Lanka had not been performed by the Authority.	Provision in the National Gem and Jewellery Act No.50 of 1993 in respect of import of gold is not included. In order to facilitate jewellery industrialists and provide facilities for the import of gold subject to a concessimary tax, discussions with the Treasury with the intervention and supervision of the Authority in respect of 15 per cent custom duty imposed in the year 2018 had been held.	Steps need to be taken to monitor and facilitate the import of gold.

- (c) Afterwards getting the National Gem and Jewellery Authority Act No.50 of 1993 approved in the year 1993, steps had not been taken to get it revised timely even in the year under review.
- According to the decision relating to the cabinet memorandum of 24 September 2019 in respect of the amendment to the National Gem and Jewellery Authority Act No.50 of 1993, action will have to be taken to get the approval of the new cabinet of ministers. Observation of the top management of the Authority on the cabinet decision could not be obtained up to now. Necessary action in this regard will be taken in due course.
- Steps need to be taken to amend the Authority's Act timely
- (d) Even though, 5 lawyers are in service in the Legal Division of the Authority, a sum of Rs.859,114 had been paid for the service obtained from the Attorney General's Department for 26 court cases out of 30 cases field against the Authority by various parties.
- Officers of the Legal Division of the Authority have been attached to the Ratnapura Regional Office and the Head Office on duty requirement.
- Action need to be taken to get the assistance of the legal officers of the Authority for legal affairs.
- Since the legal functions in respect Gemming licence raids and other legal functions are plenteous, action had been taken to get the assistance of the Attorney General's Department.
- (e) Compound determined in terms of circulars in respect of breach of conditions in the Gem Mining licenses had been under recovered a sum of Rs.647,500 in 6 occasions. In that, case the chairman had ordered to recover only 25 per cent of the compound from a licence holder since an illegitimate sponsorship had been obtained for the silver jubilee held by the Authority. The compound unrecovered thereon amounted to Rs.250,000.
- In terms of section 52 of the Authority Act No.50 of 1993, the Authority may with the consent of the parties having regard to the circumstances in which any offence under this Act was committed, compound such offence for a sum not exceeding one third of the maximum fine imposable for the offence. According to the Act, for an offence a fine not exceeding Rs.1,000,000 is liable. Accordingly, the maximum compound recoverable at a settlement amounts to Rs.333,333. Being stated the faults in the circular No.121-7 which is used now for compound money by the
- Action has to be taken to recover the compound amount in terms of the circulars.

Authority, a maximum compound amount of Rs.333,333 had been imposed. it any beach of condition the practical difficulties of the related parties need to be considered by the Authority before being settled. In this case the relevant other parties make an appeal to the chairman and the chief executive officer of the Authority for the compound amount. In this case after being re considered the other circumstances and practical technological issues the compound amount is revised as the Chief Executive Officer of the Authority on the powers vested in him.

3.2 Operating Inefficiencies

	Audit Observation	Management's Comment	Recommendation
(a)	The Authority had put up 35 market stalls within the flow area of 6,995, sq feet obtained from the World Trade Centre on rent basis and given to small and medium scale traders on rent basis. A loss of Rs.2,748,862 in the year under review and Rs.3,232,365 in the preceding year had incurred.	Of the 41 market stalls in the World Trade Centre, only 18 stalls are in operational level by now and 2 stalls had been sealed by the Authority due to non-payment of monthly rental and electricity charges. Legal action had been taken by the Authority with the intention of minimizing the loss sustained by the Authority due to tenants dwell upon illegally in the empty market stalls for a long time without paying rent. The Authority had taken action to handover the 5 th floor of the Sri Lanka Gem and Jewellery exchange centre to the owner since 01 July 2020.	Action needs to be taken to cover the losses and to recover the outstanding rents.
(b)	The approval of the Board of Directors had been obtained for a project to put up digital board by spending a sum of Rs.21,462,000 in Colombo Fort Townhall, Katunayake, Galle and Kandy for	Bids had been called for under the National Competitive bidding system with transparency by new, paper advertisement for the putting up of LED digital board. Subject to the approval of the Technical	Projects need to be properly executed in accordance with procurement procedures.

the public awareness of the functions of the Authority with the intention of earning a monthly income of Rs.4,000,000 by displaying advertisements in those digital boards. Putting up a digital board at an expense of Rs.4,061,400 in Ratnapura Town which is not an approved area had been handed over to a contractor and an advance of Rs.800,000 had been paid without an advance bond. Even though, the technical evaluation committee had informed several time that there were faults in the Board put up by the contractor who had no sufficient experience in the relevant field, they had not been rectified and handed over to the Authority. Since sponsoring institutions had not been joined for revenue promotion as well, the project was failed.

Evaluation Committee and the procurement committee this procurement had been carried out. This contractor had sent the particulars of previous projects done. After being ensured that a certain portion of work had been completed by the contractor, in considering the cost of works done, and the instructions and approval of the Ex-Chairman, the payment had been made. Furthermore, the contractor had informed in writing that all the balance works of this LED Digital board will be completed and handed over with the next 2 months.

(c) Even though, agreements had been entered into with contractor for the closing up of 5 Gem pits in the Ratnapura District, action had not been taken to close 2 pits. Since the performance bonds amounting to Rs.3,601,935 need to be kept by contractors as per agreements had not been obtained, the loss relating thereto could not be recovered.

Two gem pits had been closed down within the due period. Since the Ganegama Pathakada and Pilladeniya gem pit are as huge as a tank, a lot of money has to be incurred to close it, (about 50 lakhs) and the South Hunuwala, Narangaswatta gem pit is a cultivation well and as such the villagers stand against the closure of the well, the closure of such pits had been stopped by the Director (Lands/ Excavation/ Environment). Furthermore, the performance bond had valid up to 31 December 2017 and due to non-closure of the balance pits as per Authority's instructions, the performance bond could not be confiscated or taken any other legal action.

Steps need to be taken to close down pits as per agreements and to protect environment.

3.3 Under utilization of Funds

 The following observations are made.

Audit Observation -----	Management's Comment -----	Recommendation -----
(a) Being used the Jewellery Development Fund, a project for the distribution of jewellery manufacturing tools and equipment to small and medium scale entrepreneurs had been executed. Under this equipment valued at Rs.4,115,184 had been distributed only to one jewellery manufacturing Association. The balance of the Fund as at the end of the year under review amounting to Rs.76,067,905 had been retained unutilized.	Only the Pubudu Jewellery manufactures welfare Society had sent their proposals and reports but other societies had no any interest thereon. Since 80 technicians have taken the membership of this society, the Central Province Ministry of Industries had put up a common service centre to operate silver jewellery manufacturing industry with 3 phase electricity and other facilities and with the objective of providing technical knowhow to manufactures in Gampola area, this project has been commenced. A sum of Rs.780,597 to the Gem and Jewellery Research and Training Institute during the year 2019 for the training of Gem and Jewellery Technicians and a sum of Rs.45,000 to provide advisory service for training of jewellery technicians on jewellery design, invention mechanical and traditional jewellery manufacturing had been paid from this Fund.	Necessary action need to be taken to utilize the fund effectively.
(b) Even though, equipment and assets valued at Rs.4,213,289, had been donated to a jewellery society by using the fund in the years 2017 and 2018 the objective of donating the equipment had not been achieved, since such equipment had become under-utilized. Furthermore, the	The basic equipment requires to manufacture ornaments and required other facilities had been given to the Society in respect of providing technical assistance to jewellery industry and the members of the society had initiated to manufacture ornaments since May 2018 by utilizing such facilities.	Follow up action needs to be done in respect of utilization of assets.

contribution made to the industry from donations given by using the Fund had been at a minimum level.

3.4 Idle or under- utilized Property, Plant and Equipment

The following observations are made.

Audit Observations	Management's Comment	Recommendation
(a) Two items of laboratory equipment valued at Rs.7,794,888 purchased in the year 2016 with the intention of testing the standard of jewellery within the Mobile Laboratory service implemented by the Authority had remained unutilized for more than 3 years and a stock of gems valued at Rs.183,548 had been kept without been used for more than 5 years.	Centered on the Assay Office in Colombo and Galle, tow had held type 'EDXRF' machines had been purchased for testing jewellery in the field by using groups of raids. In testing jewellery shops by the raids division, these machines are brought and tested the quality of jewellery. In addition, those 2 machines are now used for testing of jewellery by mobile laboratories, testing of jewellery in the laboratory of Head Office, use at the workshops on jewellery exhibitions and awareness, field testing of jewellery on court orders and jewellery valuation functions in religious places, organized by the Ministry of Buddhist Affairs. Therefore, these 2 machines are now used for testing.	Action needs to be taken to utilize assets effectively.
(b) Assets purchased in the year 2016 at Rs.1,251,498 for a museum proposed to be set up in the Ratnapura Office had remained unutilized for a period of more than 2 years and the museum was not commenced even up to the date of audit.	Even though, the construction work thereof had been commenced as per the instructions of the Chairman and Chief Executive Officer, operating of the museum had been delayed.	-do-

- (c) A land, 80 purchase in extent valued at Rs.889,000 located in Matara Belideniya area belongs to the Authority and a building, the written down value of which amounts to Rs.3,091,861 with a floor area of 3007 sq.feet had been kept idle for more than 7 years since 2012.
- Necessary action is being -do- taken to utilize this building.

3.5 Delays in projects or capital works

The following observations are made.

Audit Observation	Management's Comment	Recommendation
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(a) Even though, a sum of Rs.8,550,000 had been paid in the year 2018 for the installation of a computer software system, the work there of had not been completed even by the end of the year under review.	A sum of Rs.8,550,000 had been released in the installation computer software system for 45 per cent completed works. Staff training relating to the installation of computer package, awareness of the management and the purchase of required facilities (VPN connections) and equipment had been made in the year 2019. Action is being taken to complete the work in the year 2020.	Projects need to be executed in accordance with plans.
(b) Even though, an entrepreneur had been selected on 11 August 2017 for a sum of Rs.12.5 million for the Gem mining project at Kaluganda, Haraniyawaka, due to failure in obtaining approvals for environmental recommendations and from other government institutions, the project had not been started even up to the date of audit.	It was planned to implement the project in compliance with sections 14(f)(g) and 14(a) of the National Gem and Jewellery Authority Act No.50 of 1993 and financial objects of the Act. However, the relevant recommendations are expected to obtain before the project is implemented.	Action needs to be taken to implement the projects already planned.

3.6 Procurement Management

The following observations are made.

Audit Observation	Management's Comment	Recommendation
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(a) According to the procurement plan of the year under review, construction of a 8 storied new building having been demolished and removed the Head Office building of the Authority, purchase of a land in Ratnapura area and construction of a Holiday Resort in Katharagama by spending a sum of Rs.518 million had not been performed.	Even though, primal plans had been designed for the construction of a 8 storied building in the present head building, the approval of the Urban Development Authority to put up a building with more than 8 stories in the existing location had not been granted. Therefore, a cabinet paper requires to acquire a government owned land, somewhere in Galleface for the construction of a 35 storied building had been submitted on 03 July 2019. According to the instructions given at the discussion held on 08 January 2020 in the Ministry of Industries and Supplies Management in terms of the cabinet decision No.අමෙ/19/1960/104/061 dated 03 July 2019, the approval for revised cabinet paper had not been granted.	Relevant tasks need to be carried out in terms of procurement plans.
(b) The approval of the cabinet of ministers had been given on 03 July 2018 for the development of Ratnapura, Demuwawaka Gem street as an international Gem Centre and to put up a gem tower and sums of Rs.100 million and Rs.150 million had been allocated in the year 2018 and 2019 respectively. However the project had not been started.	According to the decision of the cabinet of ministers on 03 July 2018, the Divisional Secretary Ratnapura has consented to transfer the proposed land for the commencement of the project through a free award paper and further action is being done. Surveying and under- ground earth testing of the proposed land had been completed. The primary approval of the Urban Development Authority and public entities from which the consent is to be obtained had already been obtained. The final	Action needs to be taken to perform the relevant tasks in accordance with the procurement plan.

designs relates to the project had been submitted to the Urban Development Authority in March 2020. It is intended to submit the BOQ and Tender Documents for procurements of the project by the consultancy agency to the Authority.

3.7 Human Resources Management

The following observations are made.

Audit Observation	Management's Comment	Recommendation
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(a) Six officers had been appointed within 5 years to act in the post of Director General of the Authority. Even though, the legal impediment was precluded to fill permanently since 13 December 2017, action had not been taken to fill the permanent post. Action had not been taken to fill the post of Deputy Director General fallen vacant since 2011 even in the year under review as well	The Director General post of the Authority had been appointed with the written orders of the Hon. Minister in charge of the subject, since 2017 under section 23 of the Authority Act No.50 of 1993. This position had arisen, since that order could not be transcendent.	Top management posts to be immediately filled.
(b) A female employee had been recruited to a post of casual clerk in the year 2009 and appointed to a post of Management Assistant contract post in the year 2011 and thereafter she had been appointed to a permanent development Assistant's post since 05 April 2013. According to the recruitment procedure, she had not fulfilled basic qualifications for all relevant 03 posts and action had also not been taken to assign her sufficient duty for the permanent Development Assistant's post.	Since she had fulfilled the qualifications under the recruitment procedure applicable by April 2009, she had been offered Casual Clerk/ Management Assistant (contract) post. According to the scheme of recruitments subsequently revised she had not been confirmed in that post, since she had not fulfilled the qualifications require for the post of Management Assistant. Under the recommendations of the then Senior Manager (personal control) and the approval of the Board of Directors, she had been appointed to the Post of Regional	Action needs to be taken to recruit persons with qualifications.

Development Assistant. (MA 5-1) For necessary action, it had been referred to the Board of Directors.

- (c) An appropriate staff for raids carried out by the Authority to prevent illegal action and encroachments causing in connection with gem industry had not been appointed. A Regional Development Division, functions under a director is in operation for the enforcement of law in respect of unauthorized actions in the gem industry. Necessary steps need to be taken to appoint a separate staff for raids.
- (d) Without taking action to recruit an officer for the Post of Director (Assaying and Hallmarking) which had fallen vacant since 22 June 2019, an Instructor had been recruited on contract basis for a period of 6 months. A sum of Rs.83,334 had been paid during the year under review as fuel allowances without approval. Even though, the post of Director (Assaying and Hallmarking) since 22 June 2019 and the post of Director Assessment/ Gemologist) since 10 November 2019 had fallen vacant, such schemes of recruitments which had been referred to the Department of Management services had not been approved up to now and as such relevant recruitments get delay. Therefore, a capable and well experienced officer had been recruited on contract basis under the approval of the Board of Directors in order to maintain the functions of both divisions continuously and smoothly and the relevant fuel allowance had also been paid. An officer recruited even on contract basis, it could be able to operate the functions of 2 divisions in a manner being minimized problems. Steps needs to be taken to recruit a permanent officer.

3.8 Vehicle systems Management

The following observation is made.

Audit Observation	Management's Comment	Recommendation
----- Even though, the Board of Directors had approved to dispose of 05 motor vehicles at a cost of Rs.9,378,888, used for more than 10 years by the Authority and an another vehicle, the value of which was not stated, on 21 February 2019, those vehicles had not been disposed. A sum of Rs.4,542,832 as repairs and maintenance expenses had been incurred for a vehicle purchased at Rs.8,950,000 in the year 2012 within a period of 7 years. Without being used or disposed of this vehicle, it had been kept idle for more than 2 years. Furthermore, without taking action to put it for running after being repaired it had been kept idle for more than 9 months.	----- After obtaining the approval of the Board of Directors, special Board of Survey and the valuation board had been appointed and along with its report, it had been referred to the Ministry of Mahaweli and Environment on 25 October 2019 for approval. Nevertheless, due to delay for the relevant approval and the policy decision taken by the Government not to purchase new vehicles to public entities, it was decided to use those vehicles hiring being repaired without being disposed.	----- Action need to be taken to dispose of or use the vehicles.

4. Accountability and Good Governance

4.1 Annual Action Plan

The following observations are made.

Audit Observation	Management's Comment	Recommendation
----- (a) Action had not been taken to include the main objects of the Authority in the year under review and to achieve such objects which include, provision of facilities to gold importers, to facilitate for exchange of Sri Lankan Gem and Jewellery, operation of Ratnadeepa Trade Stall and Management.	----- Provisions of facilitate to goldsmiths are not made in the Authority's Act and Applicants engage in jewellery industry are registered with the Authority. The Authority had intervened to provide concession for 15 per cent custom duty recovered since April 2018 in the import of gold and prepared a cabinet paper and presented to the Ministry. Provision of facilities for the exchange of Sri Lankan Gem and Jewellery and promotion is	----- Action needs to be taken to include objectives to the Action Plan and achier them

stated under item No.9.2 of the Action Plan. To promote the centre, publication of advertisements in the magazines of Sri Lankan Airline company and Sri Lanka Tourist Board, and awareness of the Ministry of Foreign Affairs and the institutions located in the World Trade Centre had been carried out. All facilities to shop owners in the centre are supplied by the Authority.

- (b) According to the action plan a provision of Rs.397,450,000 had been made for the purposes to be achieved during the year which include, supply of consultancy services to identify gem deposits, research and development activities, improvement of gem industry, holding local and international exhibitions for gem export promotion, conducting training courses relating to value addition for high standard gem and jewellery industry, commencement of 3 new laboratories for testing gems in accordance with international standards and to determine the gold quantity, standardization of services provided by the Authority, construction of two new branch offices construction of a conference building with a circuit bungalow etc. such activities had not been fulfilled during the year.
- Being decided collectively that the establishment of a gem testing laboratory and a laboratory to determine gold quantity in kandy is not topical and as a remedy it was decided to upgrade the laboratories located in the head office. The process of obtaining ISO 17025: 2017 standard certificate for the gem testing laboratory is being carried out and the primary work part had already been completed. Quotations for the improvement of laboratory in Colombo head office had been called for by the supplies division. Upgrading the gem testing laboratory located at Head Office is already being carried out and the approval of the Board of Director had been obtained therefore.
- The Action Plan should be practical and action to be taken to achieve targets.
- (c) Even though, it was targeted to earn an income of Rs.17,640,000 by auctioning of gem lands only one land had been auctioned and earned a revenue of Rs.9,470,000. An income of Rs.12,000,000 had
- After being halted the special gem mining projects, the release of lands for auctioning had been rejected by the estate companies. Since the decrease of number of lands which can be released had
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been targeted by issuing gem mining licences through the mobile service and issue of export licence, such licences had not been issued or earned income. Income earned from export of shell Geuda katta had been only 53 per cent of the target revenue of Rs.19,653,000.

decreased the revenue as well.

- (d) Even though, a sum of Rs.66 million had been allocated, for holding 11 international trade fairs and 10 local Trade fairs for the improvement of gem industry locally and internationally only 12 international and local trade fairs had been held by incurring a sum of Rs.9.4 million.

Since the unavailability of sufficient number of applicants for international trade exhibitions, unwillingness of exporters for booking trade stalls directly and to participate in the exhibitions, planned international exhibitions could not be held. The trade exhibition planned with the objectives of popularizing the Sri Lanka gem and jewellery exchange centre located in the World Trade Centre and to attract foreign tourists come by ships on Sri Lankans gem and jewellery had failed as the co-operation of the institutions related to trade exhibition could not be obtained. Due to volatile political background existed and changing the post of Chairman of the Authority from time to time, the designed exhibitions could not be held. Along with the Easter carnage happened in April 2019, programs aimed at market promotion had not been organized.

- (e) Even though, a sum of Rs.15 million had been allocated to reconstruct 4 areas damaged due to mining, only one place had been reconstructed by spending a sum of Rs.281,656.

Not replied.

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4.2 Sustainable Development Goals

The following observations are made.

Audit Observation	Management's Comment	Recommendation
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Every public entity should act in accordance with the United Nations 2030 Agenda. Nevertheless, the Authority was aware in respect of the affairs come under its scope, any tasks whatsoever in that connection had not been performed during the year under review.	It is informed that the affairs relate to the United Nations agenda will be performed soon.	Action needs to be taken as per instructions.