

## **Gem and Jewellery Research and Training - 2022**

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### **1. Financial Statement**

#### **1.1. Qualified Opinion**

The audit of the Financial Statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2022 comprising the Statement of Financial Position as at 31 December 2022 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 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 effect 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 Institute as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

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

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

#### **1.3. Responsibilities of management and those charged with governance for 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 intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

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

#### **1.4. 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 Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5. Audit observations on the Preparation of Financial Statements

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

Non-compliance with the reference to particular standard	Management Comment	Recommendation
Assets with a cost value of Rs. 53,558,228, which had been fully depreciated by the end of the year under review but were still in use, were not disclosed in the financial statements. Furthermore, in accordance with Sri Lanka Public Sector Accounting Standard 03, the effective life time of these assets had not been restated and adjusted in the financial statements.	The institute's fully depreciated non-current assets are currently valued at Rs. 53,492,401.18 However, all of the institute's non-current assets are currently undergoing classification and documentation. Subsequently, all non-current asset categories will be revalued in accordance with Section 49 of Sri Lanka Public Accounts Standard 07. The correct carrying value of non-current assets will then be presented in the financial statements.	Action should be taken in terms of accounting standards.

### 1.5.2 Accounting Deficiencies

Non-compliance with reference to the relevant standard	Management Comment	Recommendation
(a) The property, plant, and equipment, which included gemstones amounting to Rs. 2,301,575, had not been revalued for over four years.	Given that these gemstones are low in value and serve as educational samples for students to identify rough gemstones, revaluation is not required every four years. Revaluation will be conducted as needed, based on the current market prices of the stone stocks.	Accounts should be prepared accurately.
(b) The value of deposit made directly in the bank as at 31 December 2022 as per the bank reconciliation statement was Rs. 1,635,470 and the amount direct deposited to the bank in the years 2020 and 2021 included in this balance was Rs. 319,710, and	Direct deposits represent course fees credited directly to the bank by students. These deposits remain unrecognized if students fail to submit bank deposit slips and receive cash receipts. After two years and with Board of Directors' approval, these unrecognized deposits will be recognized as revenue. In the future, students will be instructed to	A formal program should be developed to identify direct deposits.

action had not been taken to identify these direct deposits and adjust in the financial statements.

include their National Identity Card number, telephone number, and student registration number on deposit slips when making direct deposits to reduce discrepancies in direct remittances.

## 2. Financial review

### 2.1. Financial Results

The operating result for the year under review was Rs.5,319,778 loss and correspondingly the last year's loss was Rs.12,105,126. Accordingly, an increase of Rs.6,785,348 was observed in the financial result. This was mainly due to the increase in course income of Rs.11,986,550 compared to the previous year.

## 3. Operational review

### 3.1. Management Inefficiencies

Audit Observation	Management Comment	Recommendation
In the overpaid salary balance, there is an amount of Rs. 466,762 that should have been collected in installments from four officers but has not been collected as intended.	The four officers mentioned in this audit report are former employees who have left the company, and they have an overpaid salary balance of Rs. 446,761.73 This matter has been referred to the Attorney General's Department for legal action to recover the amount, and related legal proceedings are currently in progress.	Actions should be taken to recover.

### 3.2. Operating Inefficiencies

Audit Observation	Management Comment	Recommendation
As of December 31, 2022, the institution had 136 sanctioned staff and 65 actual staff and 71 posts, this means that 52 percent of the sanctioned staff positions were vacant. Notably, key senior-level positions, such as Director General and Director (Research), remain unfilled. Additionally, there are 24 vacancies out of 29 approved positions for research work and 19 vacancies out of 33 approved positions for training work, which has had a	According to the decision of the Board of Directors regarding these vacancies in our institution, although the Hon'ble Minister, the Hon'ble Minister of State, the Secretary of the Ministry of Industries and the Additional Secretary of Primary Industries have been continuously informed, it has not been possible to carry out these recruitments due to the lack of approval for the recruitment of the relevant vacancies. It should be acknowledged that the lack of technical staff in the research and training sectors has had an adverse	Adequate staff should be recruited and arranged to fulfill the objectives of the organization.

detrimental impact on the institution's ability to conduct research and training activities.

effect on the performance of the research and training activities of the institute. It's important to note that despite our request for approval, we have not received authorization for the recruitment of the Assistant Director (Gemology) position.

### 3.3. Underutilization of Funds

#### Audit Observation

In 2016, the land acquired on a 30-year lease basis for Rs. 14,204,402 to construct Rathnapura District Office. However, this land remained underutilized for over six years due to the lack of related projects until the period under review.

#### Management Comment

A conceptual plan and estimated cost report, dated 04/09/2018, for the building to be constructed on this land were prepared by the Central Engineering Consultancy Bureau.

Subsequently, efforts were made to secure support from the Ministry of Mahaweli Development and Environment, the ministry in charge at that time, to complete the approval process with the National Planning Department and prepare the required documents.

It was part of the 2021-2025 five-year plan to complete this building. External consulting services were scheduled for 2021 as per the plan, but due to budget constraints, it couldn't be included in the operational plan.

According to National Budget Circular No. 03/2022, dated 26.04.2022, which aimed to control public expenditure, no provisions will be made for new buildings.

#### Recommendation

The relevant tasks should be carried out.

### 3.4. Procurement Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>In 2017, an accounting software system was purchased at a cost of Rs. 346,035 for six years. However, it has not been used for accounting activities due to system deficiencies, and there was no service agreement for updates and maintenance.</p>	<p>The accounting software system has been regularly updated with all payment vouchers, cash receipts, and other journal entries since its purchase. However, due to the lack of connectivity with the relevant agency, the final accounts have not been prepared using the accounting software. This limitation is acknowledged.</p> <p>However, the maximum capacity of this system is to be utilized after entering into an agreement with the agency for related updates and maintenance activities in the future.</p>	<p>The software should be updated and maintained in due time to fulfill the objectives of the organization.</p>