

Gem and Jewellery Research and Training Institute - 2014

The audit of financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 32(3) of the National Gem and Jewellery Authority Act, No.50 of 1993. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of Gem and Jewelry Research and Training Institute as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following non-compliances with Sri Lanka Public Sector Accounting Standards were observed in audit.

Reference to Sri Lanka Public Sector Accounting Standards

Non-compliance

(a) S. L. P. S.
A. S. 01

The equity of the Institute had increased by a sum of Rs. 46,754,000 in the year under review. This increase had not been analysed and shown in the statement of changes in equity.

(b) S. L. P. S.
A. S. 03

Even though the donations of motor vehicles valued at Rs. 22,700,000 Omitted from the accounts of the preceding year, had been accounted in the year under review it had not been shown in the financial statements as a restatement of the comparative information relating to the previous year. similarly, the rectification of the over statement of the balance of the Gratuity Fund by a sum of Rs. 164,982 relating to the previous year, had been adjusted to the accumulated loss without being adjusted to the comparative information relating to the previous year.

2.2.2 Accounting Policies

An appropriate accounting policy for accounting the income from course fees on accrued basis based on the duration of each course, had not been followed. Due to this reason, the income from the course fees for the year under review had included a sum of Rs. 625,659 received earlier for the courses of the year 2015, and a receivable sum of Rs. 323,250 relating to the courses of the year 2015.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The provision for depreciation amounting to Rs. 1,097,734 for the year under review in respect of the fixed assets valued at Rs. 10,977,344 purchased during the preceding year, had not been shown in the financial statements.
- (b) Expenses of Rs. 450,160 relating to 02 items had not been shown in the financial statements without been properly classified, and recurrent expenditure amounting to Rs. 1,131,816 had been capitalized as research tools and equipments.
- (c) An expense amounting to Rs. 230,092 incurred on newspaper advertisements for the recruitment of employees, had been accounted as capital expenditure. A sum of Rs. 42,000 paid for the transport of high temperature electric oven installed at the training center in Ratnapura to the head office in Malabe, had been accounted under fixed assets.
- (d) The cost of stock of gold and silver fraud amounting to Rs. 2,395,749 committed by a senior manager had not been accounted as stocks of consumables though; a provision of Rs. 648,000 had been made and deducted from the stock of consumable materials.
- (e) The balance of the Gratuity Fund Deposit Account amounting to Rs. 2,013,057 had been shown as Rs. 1,863,056 by understating a sum of Rs. 150,001.
- (f) The motor vehicles valued at Rs. 21,200,000 received as donations from the Treasury during the preceding year, and included in the accounts during the year under review, had been shown in the cash flow statement as a receipt of capital grants.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items, had not been presented to audit.

Item	Value	Evidence not Made Available
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	Rs.	
(a) Construction of a duct for the emission of carbon based gasses.	958,000	Cost Estimates
(b) Accumulated depreciation.	54,493,087	Schedules of computing depreciation.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non-compliance

- | | |
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| (a) Paragraph 6.2.2 of Procurement Guidelines | The minimum duration for calling for bids in competitive bidding should be 21 days. However, the duration of calling for bids for the purchase of training equipment valued at Rs. 12,888,146 for the training division, had been limited to 12 days. |
| (b) Paragraph 3 of Public Finance Circular No. 448(i) of 15 February 2011 | A registry of suppliers should be prepared in purchasing goods and services under shopping method. Despite the possibility of obtaining information through web sites and rainbow pages in that connection, an expense of Rs. 207,816 had been incurred on newspaper advertisements for the registration of suppliers during the year under review. |
| (b) Management Services Circular No. 33 of 03 April 2007 | Although allowances can be obtained, in addition to the salary only for the projects exceed US \$ 5 million, the Treasury had granted approval to pay allowances only for a period of 4 years relating to a project implemented by the Institute which had not exceeded US \$ 5 million. Nevertheless, even after the transcendence of approved 4 year period of the project, the officers of the institute had obtained a sum of Rs. 1,195,910 as allowances during the year under review without an approval of the Department of Management Services. |

2.4 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Payment of additional fuel cost amounting to Rs. 75,125 obtained by the Director General of the Institute during the year under review, had been approved by the Chairman without obtaining the approval of the Secretary to the Ministry. The Chairman of the institute had reported me on 13 August 2015 that “ those duties had been performed by the Director General of the Institute. Therefore, provisions had not been made by the Circulars that approval of the Secretary to the Ministry be obtained in respect of the official tours and advance programs , or work done reports. Instead , approval of the Chairman of the Institute had been obtained in that connection. “
- (b) A Cabinet decision had approved to implement the gem deposit exploration and assessment project in 8 provinces for the period from 2008 – 2011. As at the date of audit, 03 years had lapsed since the expiration of the project period. Nevertheless, this is still in progress on the provision amounting to Rs. 9 million granted annually by the Treasury without extending the project period. Although it had been planned to implement the project until the year 2020, approval of the Treasury had not been obtained in that connection.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Institute for the year ended 31 December 2014 had resulted in a surplus of Rs 2,642,900 as against the deficit of Rs.1,117,229 for the preceding year thus showing an improvement of Rs. 3,760,129 in the financial results as compared with the preceding year. The improvement of the financial result had mainly been caused by the increase of provisions from the Treasury for the recurrent expenditures by a sum of Rs. 11,243,800, and the increase of course fee income by a sum of Rs. 2,992,400.

4. Operating Review

4.1 Performance

The activities planned to be implemented during the year under review, such as the project on the suitability of Gevuda heat treatment in Sri Lanka, computer-aided graphics designing course, costume jewelry making course, course for setting gemstones to the jewelries, fixing machinery for architecture, diploma on gemology, human resources development, and purchasing periodicals for the information centers, had not been carried out.

4.2 Uneconomic Transactions

The Institute had paid a sum of Rs. 219,600 improperly on behalf of a personal legal case of a former chairman, and action had not been taken to recover the said money from the relevant parties.

4.3 Management Inefficiencies

The following observations are made.

- (a) Even though the Treasury had increased the provisions every year, the Institute had not taken any operation to mine the gem deposits in the areas identified thus contributing to the national wealth.
- (b) The Gem and Jewellery Research and Training Institute established in Ratnapura in the year 1995 on a cabinet decision had been shifted to a building rented out in Malambe in November 2013 without any justifiable reason. This building did not comply with the primary objectives of the Institute, and lacked 3-phase electricity required for operating the machinery of the Institute. A rental amounting to Rs. 8,400,000 had been paid during the year under review, and a sum of Rs. 900,000 had been paid as rent for the ground floor of the building in which the office in Ratnapura despite the floor remained idle during the year under review.

4.4 Weaknesses in Contract Administration

The following observations are made.

- (a) A sum of Rs. 958,000 had been spent on the contract for the construction of an exhaust duct for carbon-based gases in the Gevuda heat treatment division. Out of the 3 bids obtained in the procurement procedure, bids presented by 2 institutions could not be verified in audit. It was observed during the physical inspection carried out on the work done and the bills presented, bills had been presented with exorbitant prices, and a certificate had not been obtained from an independent valuer ensuring the activities had been properly carried out prior to making payments.
- (b) According to the procurement procedure followed in purchasing training equipments valued at Rs. 12,888,146 to the training divisions during the year under review, dates of acceptance and opening of bids had been altered and a bidder who had not presented the dully filled formats indicating prices, had been selected as the supplier. Furthermore, the bidder had been selected by considering only the prices of items in spite of the differences of the qualities of the equipments and considerable variations of the prices mentioned in the bids Presented by bidders. Specifications had been prepared without taking into consideration the standard and requirement of the equipment to be purchased. Although it was necessary to ensure that there had been sufficient financial provision prior to commencing the procurement process, those equipments had been purchased without adequate provisions.
- (c) In accordance with the project proposal of the gem deposit exploration project commenced in the year 2007, exploration in 8 provinces should have been completed by the year 2011. However, exploration had been completed only in the Divisional Secretariats of Wellawaya, Buttala and Monaragala in Uva province by the end of the year under review. An expenditure of Rs. 14,186,129 had been incurred on this project by the year under review. Out of which, 57 per cent had been incurred on salaries and overtime, whereas 17 per cent had been incurred on other expenses such as fuel and house rents. Only 2 – 20 per cent had been incurred on the accomplishment of the primary objectives of the project.

4.5 Idle and Under-utilized Assets

The following observations are made.

- (a) The Vertical Type Tube Furnace purchased in July 2013 at an expenditure of Rs. 10,977,344 to be used in research activities relating to heat treatments of Gevuda, had not been utilized for any purpose even by June 2015.
- (b) The audio equipments purchased on 27 June 2012 at a value of Rs. 104,000 to be used in playing the national anthem and covering the meetings, had not been used even by June 2015.
- (c) An earth drilling machine valued at Rs. 12,309,013 had been purchased in the year 2007. A sum of Rs. 987,000 had been spent during the year under review to repair the machine, and a sum of Rs. 756,828 had been spent on indemnity from the year 2007 up to the year under review. However, the machine had not been utilized efficiently even by the end of the year under review.

- (d) Out of the training equipments valued at Rs. 12,888,146 purchased during the year under review for the training division, a physical inspection carried out on 38 equipments valued at Rs. 7,104,800, revealed that equipment valued at Rs. 5,842,775 representing 82 per cent had remained idle for a period of more than 06 months.
- (e) The Laser Diffraction Analyzer purchased on 31 December of the year under review for the research division at a value of Rs. 5,840,000, remained non-utilized even up to the dated of audit in February 2015.

4.6 Transactions of Contentious Nature

Stamps had been used for exchanging letters instead of not obtaining a stamp maker machine. According to the sample check carried out on the purchase of stamps, a bill at a value of Rs. 7,500 with regard to 500 stamps purchased on 31 December of the year under review, had been fraudulently altered as Rs. 16,500.

4.7 Unresolved Audit Paragraphs

The following matters pointed out by the audit had not been resolved.

- (a) Action had not been taken to recover a sum of Rs. 617,400 overpaid to an officer by placing him on a higher salary scale.
- (b) Action had not been taken to recover a sum of Rs. 806,700 overpaid in granting promotions.
- (c) Action had not been taken to recover a sum of Rs. 1,495,745 relating to a gold and silver fraud of Rs. 2,395,749 committed by a senior manager , and the vehicle loan balance of Rs. 56,250 together with the relevant interest from the same officer.
- (d) An advance amounting to Rs. 317,000 paid to Sri Lanka Institute of Development Administration for the preparation of procedural rules , had become a fruitless expense.

4.8 Personnel Administration

The following observations are made.

- (a) Even though the approved cadre of the Institute as at 31 December 2014 had been 133, the actual cadre had been 53. Accordingly , the number of vacancies had been 80.
- (b) Even though the approval had been obtained from the Department of Management Services stating that 10 officers newly recruited to the Management Service would be attached to island wide training centers, all of them had been attached to various divisions of the head office.
- (c) As an examination fee had not been charged from the applicants when applications had been called for the appointment of 10 Management Assistants, and a Field and

Laboratory Assistant to the Institute, more than Rs.01 million had been spent on the appointment process including the conduct of written examinations, had become a burden on the Treasury. The transparency of the entire recruitment process was questionable in audit as the question papers had been prepared by the Institute itself. The Board of Interview had granted marks for professional experience in an arbitrary manner to 03 applicants who did not have any professional experience at all. Furthermore, an applicant who had not fulfilled even the minimum qualifications, had been recruited arbitrarily after being called for the written test and the interview.

5. Accountability and Good Governance

5.1 Budgetary Control

As significant variances had been observed between the budgeted income and the expenses, it was observed in audit that the budget had not been made use of as an effective instrument of management control

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control

- (a) Research Work
- (b) Personnel Management
- (c) Conducting of Courses
- (d) Stocks Control
- (e) Implementation of Projects
- (f) Procurement