

Gem and Jewellery Authority - 2014

The audit of financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the comprehensive statement of income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 21(2) 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 Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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 statements.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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. Subsections (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 for the effects 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 the National Gem and Jewellery Authority as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standards 01

Two fixed deposits of Rs.20,000,000 with a 3 year period of maturity had been shown in the financial statements under current assets instead of being shown as investments assets in the accounts.

(b) Sri Lanka Accounting Standards 16

(i) Even though fully depreciated 14 motor vehicles valued at Rs.31,300,527 are being used by the Authority furthermore, it had not been disclosed in the financial statements.

(ii) Even though assets should be depreciated since the date on which it had become usable condition, 5 items of assets had been over depreciated by Rs.111,015 according to the audit test checks as those assets had been depreciated since the date of payment. Similarly, a motor vehicle costing Rs.8,803,881 which had been purchased in the year 2010 had not been depreciated from the year 2010 to the year 2012. Therefore, the cumulative depreciation of this motor vehicle had been understated by Rs.4,401,939 in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) An amount of Rs.8,714,800 remitted to the Department of Inland Revenue from the tax at 2.5 per cent collected at gem auctions by the Authority had been debited to the withholding tax receivable account. Therefore, the balance of the receivable withholding tax account had been overstated by that amount.

(b) Interest of Rs.14, 029,773 receivable for the investment of Rs.861.3 million made in 11 fixed deposits and 5 Treasury bills had not been brought to accounts.

(c) The interest of Rs.8,496,216 receivable for the Treasury bills and fixed deposits had been totally debited to the Treasury Bills Account, instead of debiting to the relevant accounts, separately.

- (d) Commission income amounting to Rs.53,317 receivable from the Sri Lanka Insurance Corporation for the last quarter of the year under review had not been accounted.
- (e) Reservation of the rooms in the buildings of Rs.4,299,688 had been shown under the buildings without classifying separately.
- (f) Insurance income of the year had been overstated by Rs.405,881 in the financial statements due to the Gevuda transport insurance expenditure of Rs.234,149 paid for the period of 4 months in the year under review had not been deducted from the insurance income and the payable insurance expenditure of Rs.171,732 for the last quarter in the year under review had not been brought to account .
- (g) An advance amounting to Rs.5,015,179 had been paid for the renovation of the Regional Offices at Navula and Monaragala. Despite the constructions of these buildings had not been completed , a sum similar to the advance paid had been erroneously capitalized and the same amount had been brought to account as further payable as well.

2.2.3 Un-reconciled Control Accounts

A difference of Rs.3,100,308 was observed as 05 control accounts aggregating to Rs.171,474,206 had not been reconciled with the relevant subsidiary records shown in the financial statements .

2.2.4 Lack of Evidence for Audit

The contract agreement, bills and copies of the plans relevant to the expenditure of Rs.3,580,000 incurred for the construction of trade stalls for an exhibition held in Shanghai in China had not been presented to audit.

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

(a) Section 11 of the Finance Act,
No.38 of 1971

A sum of Rs.482,639,856 and a sum of Rs.739,722,904 in Treasury bills and fixed deposits respectively had been invested without getting necessary approval.

(b) Section 18(1) of the Gem and
Jewellery Act, No.50 of 1993

Even though any person who mines for gems on State land or any land over which any mining or gemming rights remain with the State and such person has acquired such land and such mining or gemming rights by way of an auction, the price paid at such auction by such person shall be deemed to include a royalty in lieu of any gems that

may be found on such land, any royalty had not been paid to the General Treasury by the Authority from the auction value of the gems gained from gem mining projects done by the Authority. Further, directives in relation to the percentages of the royalty had not been published through the Gazette Notifications.

(c) Establishments Code of the
Democratic Republic of Sri Lanka

(i) Section 13.3 of Chapter II

An acting appointment should be made as a temporary measure only and until a substantive appointment is made. Nevertheless, without taking action to appoint a full time officer to the post of Deputy Director General which was vacant from 28 July 2012 of the Authority, covering up duties were being done in the relevant post for over a period of two and half years up to the date of this report.

(ii) Section 4 of Chapter VII

A sum of Rs.390,870 had been over paid for 10 officers in the year under review due to absorption of employees had been made in the next steps of new salary codes as well as several next steps in the current salary codes.

(iii) Section 23.1 of Chapter
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A Valuation Officer employed in the Authority had proceeded abroad in three instances during the period from November 2012 to the year 2014 without getting approval, and he had returned to the Island exceeding the approved time period in two instances for which the approval had been obtained. An allowance of US\$ 3,960 (about Rs.518,760) had been paid per each foreign travel.

(d) Section 2 of Chapter 01 of the
Circular No.05/2014 dated 21 November
2014 of the Department of Management
Services.

Incentive at the rate of Rs.50,000 had been paid in the year under review by the Authority exceeding the amount of Rs.13,500 which should have been payable to an employee. Accordingly, the total amount paid contrary to the Circular instructions was Rs.8,504,500 .

(e) Part 4 of the Policy and Procedure
Manual of the Application of the
Information Technology(e-Public
Policy) in Public Sector dated 02
December 2009.

(i) Section 040102

Even though official electronic mail addresses should be used for all official electronic communications, private electronic mails had been used when organizing the foreign exhibitions by the Export Promotion Division of the Authority.

- (ii) Section 040111 Even though an official signature with the officer's name ,designation and the name of the Institution should be included in the official e-mails of the Institution, action had not been taken accordingly.
- (f) Section 1.1.6 (v) of the Public Administration Circular No.22/99 of 08 October 1999 An official vehicle had been assigned to the Director (Export and Export Sales) of the Authority without approval of the Secretary to the Ministry and a sum of Rs.591,180 had been paid for the transport and fuel allowances in the year under review in this connection. Even though the relevant officers could drive vehicles only for emergency official duties of the Authority ,the officers of the Authority used to drive vehicles regularly by them –selves and the vehicles are being parked in their homes at night.
- (g) Paragraph 6 of the Circular No.01/2010/01 of the Ministry of Finance and Planning dated 11 October 2010. A sum of Rs.769,560 had been over paid exceeding the entitled combined allowance for the officers who participated in the foreign exhibitions.
- (h) Public Enterprises Circular No.PED/56 of 27 January 2011. Even though all the excess money should be transferred to the Consolidated Fund by keeping sufficient amount of money for working capital requirements for the future 6 months period ,it had not been so done by the Authority.

2.4 Transactions not Supported by Adequate Authority

Total expenditure amounting to Rs.12,481,405 had been paid as incentives in the year under review, similar to the two months gross salary to all employees of the Authority based only on the decision of the Board of Directors without the approval of the Department of Management Services ,when the payment of incentives was made during the year under review. Further, a sum of Rs.4,611,375 had also been paid for all employees of the Authority for un-availed leave without the approval of the Department of Management Services.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2014 amounted to a pre-tax net-profit of Rs.314,942,235 as compared with the corresponding net profit of Rs.120,084,002 for the preceding year thus an increase of Rs.194,858,233 in the financial result was indicated. Increase of income from sale of gem and export service charges by Rs.217 million had been the main reason for this increase.

3.2 Analytical Financial Review

The profit for the year under review had increased by a sum of Rs.194,858,233 or 162 per cent as compared with the preceding year and the profit of the year 2012 had increased by a sum of Rs.230,844,298 or 830 per cent as compared with the year 2011.The main reason for

the typical improvement of income had been the income generated from the Seeethawaka Ganga Pilot Project and the gem lands auctions at Kataragama respectively.

3.3 Abnormal Increase in Expenditure

The expenditure relating to 9 Objects had been increased abnormally by Rs.40,158,415 as compared with the preceding year and the percentage of this increase had ranged from 32 per cent to 529 per cent. Only the expenditure incurred for commencing the Projects of finding gems beside the rivers which had increased by Rs.1,587,951 or 529 per cent directly contributed to earn the income of the Authority .

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) A Fund had been established from the income recovered from the income of export services charges since the year 2005 and a sum of Rs.92,948,578 had been given from the said Fund in the year 2009 to a private institution for the construction of a laboratory. This laboratory had not been established even by May 2015 and an interest of Rs.42 million had been earned by that institute by investing this money since the year 2009. However, the Authority had deprived of that interest income.
- (b) The general public had not been made aware by publishing a Gazette Notification in relation to the charges such as license fees, export service charges, gem and jewellery testing charges recovered by the Authority.
- (c) The matters such as contradiction of decisions given by the Institute and the Ministry in relation to appeals, issuing license to another party despite there was an appeal ,issuing gem cutting licenses to the lands which had partition cases had been the causes for many cases in relation to issuing of licenses . The institute had not taken any action whatsoever to mitigate these problems. A sum of Rs.90,410 had been spent as legal charges for 3 cases sued in relation to the above matters at the end of the year under review, due to the weakness in policies of the institution.
- (d) An appropriate pricing policy had not been adopted in deciding prizes of the trade stalls in foreign exhibitions. As a result ,complaints had been focused by the exhibitors to the Authority who participate in the exhibitions. eg. Shanghai Gem and Jewellery Exhibition held in may in the year under review.

4.2 Personnel Management

The following observations are made.

- (a) An excess of 53 employees , as compared the approved cadre with the actual cadre (including contract basis) employed in accordance with the Divisions of the Authority was observed.

- (b) Even though officers appointed on acting basis over a period of 2 years for the key managerial posts such as Director General and the Deputy Director General ,action had not been taken to appoint permanent officers.
- (c) An interview was held on 03 January 2014 by calling for applications for the recruitment of the post of Director(Export Services and Export Sales) and an overaged officer who had no basic qualifications had been recruited and a sum of Rs.653,918 had been paid as salaries and allowances (except fuel and transport allowances) and placed him in step HM II salary scale ,despite there were 3 applicants who had the basic qualifications .It was also revealed that this officer was a full time Director in a private institute.
- (d) Two officers who had not fulfilled the minimum qualifications and experiences in accordance with the approved recruitment procedure followed by internal recruitment of the employees by an interview had been recruited for two posts of Assistant Directors .
- (e) Despite there were two qualified officers for the post of Secretary of the Institution, it had got that task done by a private Institution. It was observed that a problematic condition could be arisen on the confidentiality of the internal information of the Authority due to non-appointment of a permanent officer of the Authority.
- (f) Re-employment of Pensioners
 - (i) An officer who was over 60 years of age had been recruited from October 2012 on contract basis as an advisor only on the approval of the Board of Directors. In this connection, a sum of Rs.937,143 in the year under review and a sum of Rs.796,000 in the year 2013 had been paid as monthly allowance and other allowances .
 - (ii) A sum of Rs.338,633 in the year under review and a sum of Rs.568,334 in the year 2013 had been paid as monthly allowance and other incentive allowances for the Assistant Valuer (Gemmology) who had been re-employed on contract basis after the retirement .
- (g) Despite there was a qualified officer for the post of Legal Officer in the Authority, the aforesaid officer had been attached to another Post and 3 officers had been recruited on contract basis for the Legal Division.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) An allowance of Rs.40,000 had been paid for 437 low income families by spending a sum of Rs.17,480,000 from the income of gem auctions obtained from the Seethawaka Ganga Research Pilot Project. This expenditure is a contradictory payment to the objectives of the institute and the method of identifying the families to whom allowances were paid was a matter of contentious nature in audit.

- (b) A sum of Rs.281,152 had been obtained as incentives for the year under review by an officer stating fraudulently as reported for duty who had been undergone on a heart surgery.

4.4 Identified Losses

It was revealed by export invoices that gems valued at Rs.2,990 million had been exported in the year under review under the special Project of exporting cut and polished gems. Service charge income earned by the Authority on that export amounted to Rs.7,915,142 and if gems were exported as usual method outside this Project, the minimum income of Rs.14,950,186 could have been earned by the Authority. Accordingly, it was observed that an income of about Rs.7,035,044 had lost to the Authority. The laws and rules relevant to this Project had not been enacted by a Gazette Notification.

4.5 Apparent Irregularities

Even though a sum of Rs.8,642,300 had been obtained as withholding tax relief and notional tax relief when the payment of income tax for the years of 2013 / 2014 on interest income , was made the income tax paid had been decreased by Rs.1,574,885 as only a sum of Rs.3,017,709 had been credited to the Interest Income Account.

4.6 Delayed Projects

Approval had been granted in the year 2011 from the Department of Public Enterprises for the implementation of skill development programmes for jewellery craftsmen by using Rs.12 million from the funds of the Jewellery Development Fund .Nevertheless, the Authority had failed to implement the activities such as providing gold and silver for craftsmen to a concessionary rates , establishing a Loan Relief Fund for craftsmen, providing English knowledge and foreign technical know-how for craftsmen and organizing a local mobile trade fair for gold and silver jewellery under the approved programmes. Further, quarterly reports indicating the progress of the approved programmes had not been presented to the Department of Public Enterprises.

5. Accountability and Good Governance

5.1 Corporate Plan

All the activities to be performed in terms of Section 14 of the National Gem and Jewellery Authority Act, No.50 of 1993 had not been included in the Corporate Plan.

5.2 Budgetary Control

Significant variances were observed between the budgeted information and the actual information, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Unsettled Audit Paragraphs

The following observations are made.

- (a) A loss of Rs.2,165,852 had been occurred by the Authority in the years 2012 and 2013 due to obtaining the fuel exceeding the approved fuel allowances continuously without getting the approval by the officers of the Authority, contrary to the Public Enterprises Circular No.39 dated 09 October 2006.
- (b) Recruitment to the post of Director-Human Resource and Administration had been made by specifying the salary at 8 salary steps ahead and as such overpayments of salary amounting to Rs.79,200 and holiday payment and incentives amounting to Rs.36,844 had been made in the year 2013.

6. Systems and Controls

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

- (a) Accounting
- (b) Vehicles Fleet
- (c) Human Resources Management
- (d) Organizing Foreign Trade Exhibitions.