

## **Gem and Jewellery Research and Training Institute – 2016**

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The audit of financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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**

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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**

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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 Auditing 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. 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**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Gem and Jewellery Research and Training Institute as at 31 December 2016 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 01**

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In terms of Section 119 of the standard, the prior year adjustments amounting to Rs.21,522,300 had been adjusted to the financial result of the statement of financial performance of the year under review instead of being adjusted to the balance brought forward from the preceding year in the statement of changes in equity .

(b) **Sri Lanka Public Sector Accounting Standard -02**

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(i) Two motor vehicles valued at Rs. 16,743,500 received as Treasury grants which should not be included in the statement of financial position, had been shown as cash outflows under investment activities and as cash inflows under financial activities.

(ii) In terms of Section 56 of the standard, the components of cash and cash equivalents had not been disclosed.

(c) **Sri Lanka Public Sector Accounting Standard - 07**

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(i) As useful life time had not been reviewed annually in respect of non- current assets, the assets costing Rs.32,290,620 had been fully depreciated but are being further used. Accordingly, the estimated error arisen had not been rectified as per Sri Lanka Public Sector Accounting Standard 03.

(ii) In terms of Section 86 of the Standard, the depreciation ratio of the research equipment had not been disclosed.

- (iii) A sum of Rs.1,093,562 spent for the improvement of 15 gem cutting machines had been written off as expenditure instead of being made capitalized in terms of Section 22 of the standard.

### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Provision for gratuity amounting to Rs. .1,153,290 and gratuity payments amounting to Rs.255,044 of the year had not been adjusted to the cash flow statement .
- (b) Out of the sum amounting to Rs.2,151,320 over paid to the employees in preceding years, a sum amounting to Rs.95,893 had been shown as a balance payable instead of made adjustments to the cumulative loss of the preceding year. As such, action had been taken to recover the overpayments in similar installments until the retirement of the employees instead of being recovered in full.
- (c) The depreciation for fixed assets of the year under review had been under stated by Rs.322,174.
- (d) The misplaced stock of silver and gold valued at Rs.1,495,749 had been included in the final stock further more.

### **2.2.3 Unexplained Differences**

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Even though the sum should be reimbursed from the National Gem and Jewellery Authority from the operating expenditure of the Gem designs and Training of Technical Officers Project amounted to Rs.1,086,831, it had been brought to account in excess of Rs.211,312 as Rs.1,298,143 as the income receivable . However, according to the financial reports of the National Gem and Jewellery Authority, no any balances payable to the Authority.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) The loan balances amounting to Rs.72,586 recoverable from the employees who resigned from the service in the year 2013 had not been recovered even by the year under review.
- (b) The deposits refundable amounting to Rs.64,000 received from 32 students who were completed the courses had not been refunded despite 03 years elapsed.

### **2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

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

## **Non-compliance**

(a) Financial Regulation 770 of the Democratic Socialist Republic of Sri Lanka

Three unserviceable mobile phones valued at Rs.88,870 had been included in the stock of consumer goods contrary to the Financial Regulations

(b) Public Finance Circular No.842 of 1978

A Register of Fixed Assets had not been maintained.

### **2.5 Transactions not supported by Adequate Authority**

Failure to levy the course fees of Rs.136,500 from 09 students out of 38 students enrolled for the Courses such as Gem Cutting and Polishing and Jewellery Manufacturing conducted at 02 Centres and the approval of the Board of Directors had not been obtained in that connection.

## **3. Financial Review**

### **3.1 Financial Results**

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2016 had been a surplus of Rs 6,587,800 as against the deficit of Rs.7,481,616 for the preceding year thus showing a growth of Rs.14,069,416 in the financial result as compared with the preceding year. The aforesaid growth of the financial result had been mainly attributed to the increase in the Treasury Grants by sum of Rs. 11, 546,000 and decrease of depreciations by Rs. 5,461,966.

An analysis the financial results of the year under review and 04 preceding years, revealed a financial surplus in the year 2014 and the year under review , whereas a deficit was observed in the years 2012, 2013 and 2015 the year under review. Nevertheless in considering the employee remuneration, and the depreciation on the non-current assets again for the financial result, the contribution of the Institute in the year 2012 amounted to Rs.28,286,500 had slightly deteriorated in the year 2013 as compared with the preceding years, but it had gradually improved in the other years. As such a sum of Rs.62,443,300 of the contribution of the Institution in the year under review had increased by Rs.62,443,300 representing 26 per cent.

## **4. Operating Review**

### **4.1 Performance**

The main objectives of the establishment of the Institution according to the National Gem and Jewellery Authority Act, No.50 of 1993, were conduct surveys and researches on Gems, Provision of technical advice for the development and production of equipment on the Gem

and Jewellery Industry, provision of training facilities on Gem and Jewellery Industry related sections and the related actions and publish leaflets and books on the activities carried out. The following observations are made in respect of the achievement of the aforesaid objectives.

- (a) Even though 20 years had elapsed since inception of the Institute it was observed that the Institute had failed to be actively involved in the achievement of the said objectives. As such, the contribution of the Institute in extracting the gems deposits, identified through surveys and researches, for the economic development of the country, was at a minimum level. The activities such as provision of technical advice for the development and production of equipment on the Gem and Jewellery Industry and publishing the leaflets and books on the activities carried out had not been fulfilled or preparation of plans in that connection had not been done.

**(b) Execution of Research Activities**  
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The following observations are made in connection with the performance of the research activities.

- (i) The overall financial performance for the exploration of Gem mines was 35 per cent. Even though the physical performance of 6 activities under that was ranged between 75 per cent to 90 per cent, the financial performance was at a level of less than 18 per cent.
- (ii) The overall financial performance of the uplift of the value of low cost Gems was at low level of 1 per cent and the physical performance of 5 activities including heat treatment of Gems and further development under that, was at a range between 20 per cent to 80 per cent. However, the financial performance was at a level of less than 5 per cent.
- (iii) Plans had been made for preparing maps at Kataragama ,Tanamalwila and Bibile Divisions in the Monaragala District in the year under review under GIS and Remote Sensing studies. However,those maps had not been prepared.
- (iv) Even though Gem Potential Maps should have been prepared relevant to 35 Grama Niladhari Divisions in the Divisional Secretariat Medagama, maps relevant to 10 Grama Niladhari Divisions only had been prepared.

**(c) Conducting Training Courses**  
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The following matters were observed in connection with the conducting training courses

- (i) Academic Calendar and proper plan had not been prepared for the training courses.

- (ii) Even though plans had been made to give free of charge training for 375 students in 6 courses in the year under review, only 242 students had been trained.
  - (iii) Even though plans had been made to conduct 5 courses for Heat Treatment of Gevuda , 03 courses had not been conducted.
  - (iv) Out of the total number of 757 students enrolled for the courses during the year, 117 students or 15 per cent had been dropped out the courses and the Ornamental Jewellery Manufacturing Course commenced for 13 students had been discontinued.
  - (v) Even though income of the courses had been increased by 47 per cent in the year under review, the profit of the courses had been decreased by Rs.856,214 or 22 per cent as compared with the preceding year due to the expenditure also increased by 159 per cent.
  - (vi) Plans had been made for the training of 1000 Gem Designers within the period of three years and a rent amounting to Rs.300,000 had been paid for 06 months of the year for the building rented out from the Awissawella area .However, only 25 students had been participated for the courses.
- (d) Out of the capital provision of Rs.35,000,000 provided from the Treasury for the training courses and development of the research activities relevant to the Gem and Jewellery Industry during the year under review , a sum of Rs.16,500,000 saved and a land had been purchased only on the approval of the Board of Directors by spending Rs.13,850,105 out of that money. This purchasing had not been included in the Action Plan of the year under review and the approval of the Treasury had not been obtained for deploy the fund received from Treasury for another activities.
- (e) Even though a public service of fee-levying heat treatment of Gevuda had been commenced, the performance in that connection was at a weak level due to the income earned from that services had been amounting to Rs.50,300.

## 4.2 Management Activities

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The following observations are made.

- (a) Action had not been taken to recover the sum of Rs. 1,495,745 in respect of the fraud involving gold and silver valued at Rs. 2,395,749 committed by a former senior manager in the year 2007, along with Rs. 56,250 of motor vehicle loan paid to that officer and the interest thereon.
- (b) A stock of Gems used in training courses had been brought to account under fixed assets to a cost value of Rs.399,006 without assessing.

### **4.3 Operating Activities**

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Even though a sum of Rs.141,081 had been spent in the year under review for the paper advertisements on calling for bids for the renting out buildings for the training of Gem Designers, the money spent for that purpose had been a fruitless expenditure due to cancelling of the procurement later. Further, advances of Rs.317,000 had been paid to prepare a Manual of Institutional Procedure Rules , that expenditure also had been a fruitless expenditure due to the Board of Directors had decided to the said manual is not necessary.

### **4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) The high temperature electric oven purchased at a cost of Rs.10,977,344 in the year 2013 for researches relating to heat treatments of Gevuda, had not been used for the relevant purposes even up to 15 July 2017.
- (b) An earth drilling machine had been purchased at a cost of Rs. 12,309,013 in the year 2007 without a plan for utilization. A sum of Rs.1,064,622 had been spent on insurance up to the year under review, the machine had not been productively utilized even by 15 July 2017.

### **4.5 Procurement Procedure**

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#### **(a) Purchasing Equipment for the Research Division**

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- (i) In terms of Guideline 5.3.2 of the Procurement Guidelines, the Invitation to bid shall contain appropriate and relevant basic information required by prospective bidders to prepare the Bids or Quotation, including main eligibility criteria and qualification requirements of the successful bidder. However, it had not been so done in the paper advertisement of the Invitation to bid and the competition had been limited due to calling for bids including office equipment and computer accessories had been mentioned as research equipment.
- (ii) Even though advertisement had been published as purchasing of research equipment, bids had been called for 56 items including photographic equipment, office equipment and computers and accessories.
- (iii) In terms of Guideline 7.12.1 of the Procurement Guidelines, rejection of all bids received can be justified when lack of effective competition is clearly evident and fresh quotations can be called. Actions had not been taken accordingly and 7 types of items amounting to Rs.2,263,080 which presented only one bid had been purchased from the same bidder.

- (iv) Two items which had not completed the specifications agreed in the ordering had been purchased at Rs.408,537.

**(b) Renting out of Buildings for the training of Gem Designers**  
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- (i) Even though bids had been called for the renting out of buildings from 3 places, a formal cost estimate had not been prepared in terms of Guideline 4.3 of the Procurement Guidelines and the place which the buildings should be rented out had not been decided on a clear basis.
- (ii) Even though a period of 21 days shall be maintained in National Competitive Bidding in terms of Guideline 6.2.2 of the Procurement Guidelines, only 13 days had been given for this procurement. Therefore, only 03 bids had been received relevant to 02 places.
- (iii) Even though rejection of all bids received can be justified when lack of effective competition is clearly evidence in terms of Guideline 7.12.1 of the Procurement Guidelines, the only one quotation received for a building in the Awissawella area had been selected. However, the specifications existed in the selected building should be a hall of 1000 square feet in extent and three phased electricity supply had not been completed.

**4.6 Staff Administration**  
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The following observations are made.

- (a) Fifty seven per cent of the approved cadre of the Institute had been vacant as at 31 December 2016 and out of the 3 posts of the approved cadre for the Senior Manager Level ,2 posts were vacant during a period of 7 years. Further, action had not been taken to fill the post of Director(Research) up to 15 July 2017 ,the date of audit.
- (b) An Officer had been recruited on contract basis from 01 January 2016 for the post of the Director General of the Institute.
- (c) A driver in the Institute had been released to the Marine University from the year 2015 without a proper approval.
- (d) As an officer had been placed on a salary step higher than the prescribed step without approval of the Department of Management Services and as such salaries amounting to Rs. 619,646 had been overpaid to him for the period from May 2009 to July 2015. Although that Officer had been released for the service of another Institution on 16 June 2015, the sum overpaid had not been recovered even up to 17 July 2017, the date of audit.



## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the financial year. However, the financial statements of the year under review had been presented to the Auditor General after a delay of 48 days on 17 April 2017.

### **5.2 Corporate Plan**

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The Corporate Plan prepared for the period 2014-2018 had not been updated in the year under review.

### **5.3 Action Plan**

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The following observations are made.

- (a) One Action Plan had not been prepared for the entire Institute and Sectoral Plans had been prepared only for the Divisions Human Resources and Administration, Research and Trainings.
- (b) The physical targets of the Action Plans of the Human Resources and Administration and Research Divisions had not been shown.
- (c) Twenty one students and 12 students had been enrolled for two courses which had not included in the Action Plan of the Training Division.
- (d) A proper measure for the examination of the progress of achieving the targets of the Annual Action Plan or the Progress Reports according to the Plan had not been prepared.

### **5.4 Internal Audit**

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The following observations are made.

- (a.) An Internal Auditor responsible for the Chairman of the Institute had been appointed for internal auditing, but a permanent audit staff had not been approved or appointed and training programmes had not been conducted for the Internal Auditor to improve his professional knowledge.
- (b) Examinations relevant to 08 audit activities allocated for 792 labour hours planned by the Internal Audit Programme had not been carried out. Even though the Internal Audit Division should examine the reliability of the accounts reports , schedules and notes of the Institute in terms of Financial Regulation 133(2) , the examinations thereon had not been audited and not included in the Internal Audit Plan.

## 5.5 Procurement Plan

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A Procurement Plan had not been prepared properly in respect of a sum of Rs. 31,950,000 granted from the Treasury for the acquisition of fixed assets.

## 5.6 Budgetary Control

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The following observations are made.

- (a) In terms of Section 5.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the budgeted financial position statement, budgeted income and expenditure statement and budgeted cash flow statement had not been prepared along with the budget.
- (b) Variances ranging from 11 per cent to 605 per cent were observed between the budgeted and actual income and expenditure, thus it was observed that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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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.

### Areas of Systems and Controls

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### Observations

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| (a) Accounting             | Four expenses, one Expenditure Account and 03 Interest Income Accounts which the Ledger Accounts should be maintained separately had been shown in one Income Account.                                      |
| (b) Procurement Activities | Procurements had been carried out separately for each goods contrary to the Procurement Plan prepared.  |
| (c) Operating Control      | The certificates issued for the courses are kept without proper responsibility, all certificates are not numbered by a machine and the certificates discarded due to errors had not been disposed properly. |