

## **Transaction report of the National Gem and Jewellery Authority – Lanka Gemological Laboratory (Private) Limited - 2022/ 2023 / 2024**

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The audit of the operational activities of the National Gem and Jewellery Authority – Lanka Gemological Laboratory (Private) Limited (Company) for the years ended 31 March 2022, 2023 and 2024 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 the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented to the parliament appear in this report.

### **1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16(1) of National Audit Act No.19 of 2018. The annual financial statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual performance report of such instances as may be specified by the rules in terms of Section 16(2) of the Act. It should be ascertained to prepare annual reports and other financial statements within the required time period in terms of Section 38(1)(d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the annual reports related to the entity which was being audited to parliament.

## **2. Financial Statements**

### **2.1 Presentation of Financial Statements**

According to section 6.5.1 of the State Enterprise Circular No. PED/12 dated 12 June 2003, and section 6.6 of the Operational Guidelines for State Enterprises issued by State Enterprise Circular No. 01/2021 dated 16 November 2021, the financial statements approved by the Board of Directors for the years from 1 April 2014, to 31 March 2024, which should be submitted to the Auditor General within 60 days after the end of the financial year, have not been submitted for audit as of the date of this report.

### **2.2 Assets, Liabilities, Income and Expenses**

The details of assets, liabilities, income, and expenses as shown in the financial statements prepared by the company at last for the year ending 31 March 2014, are as follows.

<b>Items of the Financial Statements</b>	<b>Amount</b>
	----- <b>Rs.</b>
Assets	
Current Assets	139,006,695
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<b>Total Assets</b>	<b>139,006,695</b>
	=====
Equity And Liabilities	
Equity And Reserves	124,178,950
Liabilities	
Current Liabilities	14,827,745
	-----
<b>Total Liabilities and Equity</b>	<b>139,006,695</b>
	=====
Total Income	-
Total Expenses	(257,271)
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<b>Deficit</b>	<b>(257,271)</b>
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### 2.3 Maintenance of Accounts and Records

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Cash/bank books, ledger accounts, payment vouchers, journals, and bank reconciliation statements had not been prepared and maintained by the company for the period from 01 April 2014 to 31 March 2024.	No responses have been provided.	Steps should be taken to maintain books and accounts.

## 3. Operational Review

### 3.1 Establishment of the Company

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Based on an agreement between the National Gem and Jewellery Authority and the Sri Lanka Gem and Jewellery Association (SLGJA), this private company had been established on 29 May 2008,	No responses have been provided.	The legality of the company should be examined and decisions regarding

under the Companies Act No. 07 of 2007 as Lanka Gemological Laboratory. The company had been established with the objective of establishing a fully-fledged gem laboratory in Sri Lanka with facilities for treatments to increase the value of gems and determining the origin of gems and with international recognition for the certificates issued.

future actions should be made accordingly.

It was pointed out by the Attorney General in 2005 that joining hands with any private individual or organization during the establishment of the laboratory would violate the provisions of the National Gem and Jewellery Authority Act No. 50 of 1993, and such actions would be considered illegal. Additionally, releasing money to a private individual or organization in this context would be a serious violation of legal provisions; the company had been established regardless of that.

### 3.2 Establishment of the Fund

#### Audit Observation

Based on an agreement between the National Gem and Jewellery Authority and the Sri Lanka Gem and Jewellery Association (SLGJA), in addition to the 0.25 per cent export service charge levied by the Authority on the value of gem exports, an additional 0.25 per cent service charge had been collected from exporters since January 2001 and credited to the "Laboratory Development" fund. With the approval of the Cabinet on 28 January 2009, the accumulated amount of Rs. 92,498,578.69 in this fund had been debited to the account of Lanka Gemological Laboratory Private Limited on 27 April 2009.

Charging of additional service charge as above had not been published in the Gazette.

#### Comments of the Management

No responses have been provided.

#### Recommendation

Since it appears that the imposition of additional charges is not legal, actions should be taken regarding the money credited to the company based on legal advice.

### 3.3 Management Inefficiencies

#### Audit Observation

- (a) The amount of money transferred to the company's account, along with the interest there to shall be transferred

#### Comments of the Management

Since 2016, no action has been taken to implement

#### Recommendation

Since it appears that the imposition of additional charges is

back to the fund of the National Gem and Jewellery Authority and proposed internationally recognized advanced technological gemological laboratory established under Section 111 of the National Gem and Jewellery Authority Act No. 50 of 1993 had been approved by the Cabinet on 16 August 2016. Eventhough, no action had been taken in accordance with the Cabinet decision, even after 8 years had passed since the approval.

the Cabinet not legal, actions should be taken regarding the funds debited to the company based on legal advice.

LGL board meeting. Most of the directors of LGL are members of the Sri Lanka Gem and Jewellery Association (SLGJA) and despite numerous requests from the National Gem and Jewellery Authority (NGJA), they were unwilling to transfer the funds back to the Authority. Instead, they submitted counter-proposals, which the NGJA could not accept. Although a meeting had been convened at that time to resolve this issue, no positive outcome was achieved. They did not agree to transfer the funds back to the NGJA and instead claimed ownership of the funds.

- (b) Although the company was established in 2008 and 15 years had been passed by 31 March 2024, it had been failed to achieve its objectives except for a few operational activities.
- No responses have been provided.
- A decision should be made legally regarding either continuing or winding up the company and actions should be taken accordingly.

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|-----|---|----------------------------------|--------|
| (c) | The company's board of directors has not been met after 16 May 2019, and had not been taken necessary legal steps to continue the company's operations or to wind up its affairs. | No responses have been provided. | - Do - |
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### 3.4 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to the balance confirmation presented for audit by Bank of Ceylon dated on 07 January 2025, the company had a balance of Rs. 251,134,797 in the fixed deposit account number 76480128 and a balance of Rs. 25,841,283 in the current account number 8160519 as of 31 December 2024. However, the bank statements related to the current account, or the renewal notices related to the fixed deposit had not been presented for audit.	No responses have been provided.	Details of the bank accounts and deposits should be presented for audit.
(b) The balance of Rs. 25,841,283 in the above current account had been remained inactive since 2015 without being invested in any income-generating source.	No responses have been provided.	Actions should be taken to utilize the cash balances productively.
(c) The company had not been registered for income taxes, and the income tax of Rs. 14,619,695 and withholding tax balance of Rs. 4,784,831 due as of 31 March 2014, remained unsettled as of 31 March 2024.	No responses have been provided.	Actions should be taken to settle the payable income taxes and withholding taxes.
(d) In the year 2014, Rs. 369,440 and Rs. 1,032,887 had been paid for a tour of the company's chairman and a director to Thailand and Germany respectively by the National Gem and Jewelry Authority. However, by the end of the financial year 2023/24, the company had not been settled these amounts to the Authority.	No responses have been provided.	Steps should be taken to settle the outstanding balances.