

Gem and Jewellery Research and Training Institute - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Gem and Jewellery Research and Training Institute “Institute” for the year ended 31 December comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects 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 2023, 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 intends 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 skepticism 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 Sri Lanka Public Sector Accounting Standards

Non-Compliance with the Relevant Standard	Management Comments	Recommendation
Although Section 92 of Sri Lanka's Public Sector Accounting Standards No. 07 has been completely depreciated, the total carrying value of assets and equipment still in use, amounting to Rs.60,794,015, was not disclosed in the financial statements.	As of 31 December 2023, it can be acknowledged that the value of completely depreciated non-current assets is Rs. 63,095,588. However, the fixed asset register has now been updated and prepared. In accordance with Section 49 of the Sri Lanka Public Sector Accounting Standards (SLPAS), efforts are in progress to re-evaluate all non-current assets. Once this task is completed, steps will be taken to align the carrying value of all non-current assets with the financial statements.	The gross carrying amount of fully depreciated assets should be disclosed in accordance with accounting standards.

1.5.2 Accounting Deficiencies

Audit Observations	Management Comments	Recommendation
(a) For the project of starting three training centers in collaboration with the National Gem and Jewellery Authority, the remaining amount of Rs.5,030,330	The amount of Rs.10,564,786 received for this project was not accounted as income as it was not generated from the normal operations of the institution. Therefore, transactions in this	All income and expenses should be disclosed in the financial statements.

- spent was shown in the financial statements as trade and other payables, without recognizing the provided Rs. 10,564,786 as income and spent Rs. 5,534,456 as expenditure by the authority in the year under review
- project have been accounted through a Control Account.
- (b) During the years 2020, 2021, and 2022, the deposits received directly to the bank with a total value of Rs.341,685 had not been identified and accounted.
- Instructed to enter details such as their national identity card numbers, and telephone numbers for direct remittances made by the students, and thus it will be possible to identify and account for the direct remittances made to the bank.
- A formal program should be developed to identify direct bank deposits.
- (c) Out of the deposit amount of Rs.600,000 paid on 12 October 2023, for renting the Badulla Training Center building, Rs.150,000 which was the rental expense for the year under review was not accounted as expenses.
- It will make adjustments in the year 2024.
- Expenses related to the year should be identified and accounted.
- (d) According to the calculations of the audit, though software and software development assets worth Rs.3,908,650 should be fully depreciated by the end of the year under review, Rs.364,090 had been under-accounted as the accumulated depreciation in the financial statements as Rs.3,554,560.
- In the year 2024, the computer software will also be revalued; the accounts will be adjusted based on the revaluation value.
- Depreciation expense and accumulated depreciation should be properly accounted.
- (e) Provision was not made for the amount of Rs.148,680 payable for the year under review for the service contract of the electricity generator in the premises of Ratnapura Institute.
- This amount will be adjusted in the 2024 final accounts as a previous year adjustment.
- The expenses of the year should be identified and properly accounted.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.5,796,846, and the corresponding loss in the preceding year amounted to Rs.5,319,778. Therefore an improvement amounting to Rs.11,116,624 of the financial result was observed. The reasons for the improvement are the increase in course income by Rs.15,291,825 and treasury grants by Rs.10,441,478, though the operating expenses of the year under review increased by Rs.7,135,428 and the capital investment increased by Rs. 9,699,956 compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Management Comments	Recommendation
(a) The sum of Rs. 466,762 to be recovered in installments from 04 officers in the overpaid salary balance remained uncollected for 07 years.	These 04 officers are the officers who have left the institution and two of them have agreed to pay in installments and the other two have been referred to the Attorney General's Department to take legal action to recover the money due and the relevant legal proceedings are underway.	Arrangements should be made to collect the due salaries without delay.
(b) Although the gratuity to be paid in the event of future employee departure should be invested in a source of higher returns, the amount of Rs.3,304,898 was deposited in an employee gratuity savings account without doing so.	This gratuity fund will be maintained in a Fixed Deposit Account and a Savings Account and a Savings Account is also maintained for the transfer of funds in case of sudden exit of an employee. However, I expect to proceed according to the instructions received from the Board of Directors regarding the transfer of a part of that savings account to a fixed deposit account.	Arrangements should be made to gain maximum benefits from gratuity investments.

3.2 Operational Inefficiencies

Audit Observations	Management Comments	Recommendation
(a) Although research was conducted and research reports were issued at a cost of Rs.30,589,687 from 2009 to	The new gem potential areas identified by our organization through the gem deposit exploration project were given to the National	To fulfill the objectives of the project, the Board of Directors and the

2023 for the “Exploration and Evaluation Project of Gem Deposits in Sri Lanka” which was started with the primary objective of surveying the information about potential gem sites in Sri Lanka and creating a data system containing that information and directing landowners for mining activities based on that information, it was not possible to obtain the results of the research due to the failure to reach a formal agreement with the Gem and Jewellery Authority regarding the future activities of this project

Gem and Jewellery Authority for mining referral. The National Gem and Jewellery Authority's backward nature in carrying these activities forward was discussed in our institution's board meeting, and instructions were given to make arrangements through the Ministry of Industry for the industrialization of these lands.

Ministry of Line should act according to the instructions.

(b) The approved staff of the organization was 136, and as at 31 December 2023, the actual number of employees was 64. Accordingly, 72 staff positions, or 52 per cent of the total approved workforce, remained vacant. Due to the vacancy of 04 lecturer positions, 06 senior training officer positions, and 09 training officer positions included in those vacancies, the human resource problem had been hindered the operation of the institute as a research and training institute.

Although the ministry continuously inquired about filling these vacancies, it was not possible to proceed with recruitment due to national policy decisions. However, on 15 March 2024, a letter was submitted to the ministry seeking the necessary approval to fill these vacancies.

The necessary staff should be recruited to achieve the organization's objectives.

(c) Although an approved budget allocation of Rs. 20.675 million was received for 14 of the 31 tasks in the operational plan, the actual expenditure amounted to Rs. 9.094 million, resulting in a financial progress of 44 per cent for these 14 tasks.

Several factors impacted saving the provision related to the training section of the action plan such as conducting many lectures for the Gemology and Jewellery Diploma program online, although price quotations were invited according to technical specifications, no quotations were submitted meeting the expected specifications, Heavy

The action plan should be prepared by considering all factors that could impact activities, and efforts must be made to ensure the successful execution of the activities included in the plan.

rainfall in the second half of the year, no need to incur any cost for as the required quantity of rough gem samples could be obtained as a donation to the institution, delay in procurement due to shortage of pure chemicals, Delay in receiving advice from Attorney General's Department, Inability to complete work for laboratory accreditation by the end of the year.

3.3 Underutilization of Funds

Audit Observations	Management Comments	Recommendation
<p>Due to the non-construction by the year under review, on the land acquired in 2016 on a 30 year lease at a cost of Rs.14,204,402 for the construction of the Ratnapura District office of the Gem and Jewellery Research and Training Institute, that land has remained underutilized for over 7 years.</p>	<p>The 2024 action plan includes the necessary activities to obtaining the approval from the National Procurement Department and presenting a cabinet paper, and carry out the necessary activities to preparing the building plan.</p>	<p>The relevant tasks should be included, and the procurement schedule should be updated accordingly to facilitate the execution of the tasks.</p>