

## **National Gem and Jewellery Authority - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Gem and Jewellery Authority “Authority” for the year ended 31 December 2023 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 Authority as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka 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 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 Authority’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 Authority or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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 Authority.

## 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 Company'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 Company'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 Company 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 Authority, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law or other general or special directions issued by the governing body of the Authority.
- Whether the Authority has performed according to its powers, functions, and duties; and
- Whether the resources of the Authority 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 Accounting Standards

Non-Compliance with the Reference to Particular Standard	Management Comment	Recommendation
(a) In violation of paragraph 8 of Sri Lanka Accounting Standard No. 36, a provision for impairment of property, plant, and equipment at the end of the year under review amounting to Rs. 2,045,756 was deducted.	The Authority has made impairment provisions for the Naula land and building, acquired on a 30-year long-term lease basis, since 2012. The relevant adjustments will be made in the financial statements after the lease agreement which ends in 2026.	In accordance with accounting standards, impairment provisions should only be made if the book value of the assets exceeds the net realizable value.
(b) Sri Lanka Accounting Standard No. 37		
(i) In violation of paragraph 14 of the standard, the compensation amount of Rs. 7,700,000 claimed by the counterparty for 5 unresolved court cases had been accounted as accrued expenses.	A provision has been made for the expected amount of Rs.7,700,000, calculated on the basis of a high probability of paying compensation in the future. As at 31 December 2023, there has been no change in this, and it is still shown as an expense payable.	Provisions for contingent liabilities should only be made if the conditions included in the accounting standard are met.
(ii) In accordance with paragraph 28 of the standard, the compensation amounted to Rs.116,500,000 claimed by the counterparty in related to court cases, which is a possible obligation resulting	Actions will be taken to disclose this through notes in the future.	Contingent liabilities should be identified and disclosed in accordance with Accounting Standard 37.

from a past event, had not been disclosed as a contingent liability in the accounting records.

### 1.5.2 Accounting Policies

Audit Observation	Management Comment	Recommendation
Although the Authority's policy requires an annual review of the loss of impairment value of assets, amounts of Rs. 200,000, Rs. 1,407,972, and Rs. 1,433,947 for other assets, receivables, and deposits and advances, respectively, had been recorded in the accounts without any impairment adjustments for over six years.	The situation regarding impairment losses will be reviewed, and actions will be taken to make provisions in the future.	In accordance with the Authority's accounting policy, impairment values should be adjusted annually.

### 1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) The total shop rent of Rs. 2,989,815, which should have been collected by 2019 from renting out three shops at the World Trade Center, had not been accounted.	As of the year under review, legal actions had been taken against the three entities located at the World Trade Center; since the values to be received are based on legal decisions according to the agreements, the amounts receivable as of 31 December 2023 had not been shown and the relevant receivable amounts will be shown in the following year.	Income to be received should be accurately identified and accounted.
(b) According to the audit calculations, as of 31 December 2023, the interest to be received from fixed deposits and treasury bills had been accounted for an excess of Rs.16,568,170.	The interest income for over-accounted fixed deposits had been calculated using an interest rate of 12 per cent, while the interest rate of 10 per cent had been applied to the under-accounted fixed deposits to determine the amount to be received.	Income to be received should be accurately calculated and accounted.
(c) Although Rs. 62,483,470 to be paid as rewards for raids should be	Since the Gem Reward Fund is classified under the authority's	Reward funds to be paid should not be

shown as liabilities, this amount had been recorded under the name of the Gem Reward Fund in the financial statements, and the distribution of these reward funds to the external parties who involved in raids had not been carried out.

funds, it has been categorized under equity in the financial statements.

recognized as equity and should be accounted as liabilities. Actions should be taken to settle the payable reward funds without delay.

(d) According to the confirmations from the World Trade Center, though the deposit amount to be collected was Rs. 16,368,300, a difference of Rs. 566,010 was observed from Rs. 15,802,290 according to the financial statements.

The various deposit balances in the financial statements will be corrected in the future to reflect the deposit amount of Rs.16,368,300 to be collected from the World Trade Center Company.

Accurate values should be confirmed and accounts should be prepared accordingly.

(e) Due to the error of recording the correction note for withholding tax payments twice in the mine deposits liability account, as of 31 December 2023, the payable withholding tax had been understated by Rs. 8,298,412, and the mine deposits had been overstated.

Corrections will be made during the 2024 financial year.

Relevant corrections should be made accurately.

**1.5.4 Lack of evidence for the audit.**

Subject	Amount (Rs)	Unprovided audit evidence	Management Comment	Recommendation
i. Interest income	451,383,305	Documents	i. The relevant document was submitted with notes and will be resubmitted.	The document for calculating interest income should be prepared and submitted.
ii. 10 per cent withholding	2,568,873		ii. The information regarding the withheld balances prior to 01 January 2009 could not be disclosed in the year 2023 and actions will be made to disclose and present	Detailed information regarding the withheld balances should be prepared and submitted.

these balances in the year 2024.

iii. Deposits and advances. 132,928,418  
**586,880,596**

iii. Information The records regarding Land related to deposits and dispute deposits can and advances be obtained from the should be relevant regional submitted for office's Land dispute audit deposit register. Actions will be made to accurately provide the documents related to the World Trade Center's security deposits and rental deposits.

## 1.6 Accounts Receivable and Accounts Payable

### 1.6.1 Cash Receivables

Audit Observation	Management Comment	Recommendation
The lease agreement for renting a shop at the World Trade Center, which the authority had agreed upon, ended on 31 October 2021. However, the security deposit of Rs. 16,368,300 had not been collected as of 28 February 2024.	The lease agreement with the company for the Sri Lanka Gem and Jewellery Exchange located at the World Trade Center had been terminated on 31 October 2021. However, to release the security deposit of Rs. 16,368,300, though all shops needed to be handed over to the institution in an undisturbed and uninterrupted position, despite a court order instructing the handover of one shop and the payment of outstanding amounts, the shop owner had not yet complied with the court's order.	Actions should be taken to recover the security deposit.

### 1.6.2 Cash Payables

Audit Observation	Management Comment	Recommendation
A payable balance of Rs.64,447,721 to various creditors had been remained unsettled for over 5 years.	Due to legal issues arising from the income generated through the auction of gem lands and various gem mining projects of the plantation companies, the payments owed to various creditors have not been made to date. Once these legal issues are resolved, actions will be taken to settle these payments.	Actions should be taken to immediately settle the outstanding creditor balances.

**1.7 Non-Compliance with Laws, Rules, Regulations, and Management Decisions etc.**

	<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	National Gem and Jewellery Authority Act No. 50 of 1993	According to this section, the National Gem and Jewellery Authority is the sole authority responsible for issuing licenses for the gem industry in Sri Lanka, although the Attorney General's Department had informed that it is against the Act for the main regulatory authority of the gem industry to directly engage in gem mining projects with third parties, a gem mining project had been carried out during the year under review.	In this context, the Authority does not engage in gem mining, instead, it supervises the activities carried out by third parties (such as the village Samurdhi community-based organizations) and ensures that the gems obtained are properly received and auctioned, with the relevant royalty being collected as per Section 18(2) of the Act, with the approval of the Board of Directors. Various opinions were presented regarding this matter and ultimately, the Attorney General's Department recommended that there is no objection to issuing a gem mining license to a third party under Section 15(1) of the Act and entering into agreements to collect the royalty from the gems obtained, as per Section 18(2), without the Authority directly engaging in gem mining activities.	According to the provisions of the Act, the Authority should not directly engage in gem mining activities.
	(ii) Section 15(2)	Procedures were not established for the	The gazette notification, along with Tamil and	According to the provisions of the

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| <p>registration and regulation of private laboratories conducting gem testing and issuing certificates.</p>   | <p>English translations, was submitted to the Legal Draftsman on 17 November 2023, with the signature of the Secretary of the Ministry. After resolving the legal issues, the gazette will be issued, and actions will be taken to grant licenses for the registration of gem laboratories.</p>  | <p>Act, actions should be taken to register and regulate gem testing laboratories.</p>  |  |
| <p>(iii) Sections 20 (1) and 20 (2)</p>   | <p>Although the funds and donations received by the Authority should be credited to the main fund when executing and implementing the powers, duties, and functions of the Authority, as at 31 December 2023, balances of Rs. 62,483,470 and Rs.38,126,472 remained in the Gem Donations and Gem Mining Welfare Funds respectively.</p>                      | <p>The information regarding the Gem Donations Fund and the Gem Mining Welfare Fund maintained by the Authority is submitted to the Treasury in every quarter.</p>  | <p>The funds received according to the provisions of the Act must be credited to the authority's fund.</p> |
| <p>(b) Section 86 of the Inland Revenue Act No. 24 of 2017 and Paragraph No. 06 of Circular issued by the Commissioner of Inland Revenue on 23 December 2022, No. SEC/2022/E/03, regarding the reduction of withholding tax and advance tax for withholding agents.</p> | <p>Although each withholding agent must remit the collected withholding tax to the Commissioner General of Inland Revenue within 15 days after the end of each calendar month, the authority had not remitted the collected withholding tax amounting to Rs.690,476,013 by the end of the year under review, which was collected up to 30 November 2023.</p> | <p>The withholding tax for the year 2023 (excluding the 2.5 per cent withholding tax for gem auctions) has been paid before the 15th of the following month. The 2.5 per cent withholding tax related to gem auctions will be remitted to the Inland Revenue Department after receiving the invoices from the relevant divisional office, and payments will be made within the considered period in the future.</p> | <p>Withholding tax must be remitted according to the provisions of the Inland Revenue Act.</p>             |



## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 995,430,030, and the corresponding profit in the preceding year amounted to Rs. 425,741,708. Therefore, an improvement amounting to Rs. 569,682,322 of the financial result was observed. Although administrative expenses increased by Rs. 58,987,235 during the period, the increase in gem land auction income by Rs. 202,121,358 and interest income by Rs. 323,065,776 were the main reasons for the profit growth this year.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observations	Management Comment	Recommendation
(a) Actions had not been taken to amend the National Gem and Jewellery Authority Act No. 50 of 1993 during the year under review.	On 06 July 2023, the Minister of Finance, Economic Stabilization, and National Policies presented a Cabinet Memorandum to repeal the National Gem and Jewellery Authority Act and the Mines and Minerals Act, and to introduce two new institutions and related to regulatory duties, research, and development activities, along with the introduction of corresponding legal frameworks. Therefore, the Minister of Finance, Economic Stabilization, and National Policies, through his observations, has indicated that it is unnecessary to amend the National Gems and Jewellery Authority Act No. 50 of 1993 and it has been decided by the Cabinet decision number CP/23/1392/617/029 dated 15 August 2023, to instruct the Secretary of the Ministry of Industries to take appropriate actions and this decision has been communicated to the Authority by the Senior Assistant Secretary of the Ministry of Primary Industries through letter number SMGJ/ADM/03/01/05 dated 04 October 2023.	Since the relevant Cabinet memorandum has not yet been approved, the currently operating Act must be amended in a timely manner.
(b) Due to mismanagement, two FTIR machines, valued at Rs.9,724,501, used for identifying heat-treated gemstones, are currently	The two FTIR machines are installed at the Colombo Gem Laboratory and the Ratnapura Laboratory. Although these machines are not functioning properly, the provision of suitable	Assets should be maintained in proper working condition and utilized for

unusable. equipment by the administrative division is an essential service to ensure that the required temperature is maintained for its existence. Therefore, air conditioning facilities have been arranged for these machines 24 hours. operational activities.

- (c) According to the recruitment scheme approved by the Department of Management Services, the position of Director General, which carries significant responsibilities including assisting the Chairman with all administrative, financial, and regulatory activities of the National Gem and Jewellery Authority, had not been permanently recruited for over 10 years, from 2013 to 2023. On 09 December 2022, an interview was conducted to fill the vacancy for the position of Director General. But, the interview panel was not satisfied with the applicants, resulting in an unsuccessful interview. Consequently, under the authority granted by the Act, 12 officers have been appointed to the position of Director General on an acting and contract basis from 2013 to 2024 by the relevant Minister. The recruitment scheme should be revised as necessary to permanently fill the position of Director General.

### 3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) According to Para 07 of the internal circular No. NGJA/16.2/2018/Bachoe iii dated 29 August 2018, the security deposits should be claimed to restore the land after gem mining and excavation, without doing so, dangerous mines that have been abandoned in a dangerous and harmful manner to the environment should be closed and restored by the authority after 02 months after the license was revoked, but during the sample inspection, 19 mines had been observed that had not been closed in such a manner.	It has been revealed during the document inspection that these lands, used for various activities (sand/soil) in addition to gem mining approximately 10 years ago, do not have specific details about the individuals who obtained the licenses. The relevant division has been referred to close these mines and take further actions.	According to the circular's regulations, the mines must be properly closed and the land should be restored. To ensure this, an adequate security deposit must be obtained.

- (b) When issuing gem mining licenses, a special security deposit is charged for the restoration of the mined gem mines and by the end of the year under review, the value of the security deposits that had been deposited but not reclaimed by the miners amounted to Rs.1,377,385,852 and this has led to a dispute during the audit regarding whether the proper regulations has been implemented to ensure the proper restoration of the gem mines and the relevant land.
- The security deposits charged for traditional mines are shown in this balance and from 22 March 2023, a deposit of Rs. 10,000 per mine had been charged, whereas in previous years, it had been Rs. 4,500 per mine. Since the charged deposit amount is relatively low, miners have closed traditional mines but have not reclaimed the deposit, resulting in this balance.
- According to the provisions of the Act, gem mines must be properly restored and the relevant land should be restructured. To ensure this, an adequate security deposit must be obtained.

### 3.3 Inactive or Underutilized Assets, Machinery and Equipment

Audit Observation	Management Comment	Recommendation
In Belideniya, a land valued at Rs. 889,000 and a building valued at Rs. 5,358,507 have remained unused and inactive for over 12 years.	According to the Board Paper No. 2430 presented at the Board of Directors meeting on 31 January 2024, it was proposed by the Chairman of the Gem and Jewellery Research and Training Institute to allocate the land and building in Belideniya for the use of the institute.	Actions should be taken to utilize these assets for a productive purpose.

### 3.4 Project Delays

Audit Observation	Management Comment	Recommendation
In 2016, the authority entered into an agreement with a software supplier to install a software system at a cost of Rs. 19 million and Rs. 10,450,000 had been paid By 2021. Despite more than seven years having passed since the agreement, the software system had not been installed by the end of the year under review.	The software development institute notified that all parts of the software had been developed by 31/12/2023. The authority's IT department obtained reports from all department heads where the ERP software is operated, confirming its functionality and compliance with basic specifications. A 90-days period was requested for the undeveloped parts.	Due to cost overruns, system delays, and the lack of benefits for the money spent, it is necessary to promptly complete the tasks related to the software system.