

National Gem and Jewellery Authority 2012

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The values of 5 motor vehicles obtained on rent installment basis had not been computed and shown under fixed assets.

1:2:2 Lack of Evidence for Audit

The following evidence indicated against each item shown in the financial statements had not been furnished for audit.

Item	Value	Evidence not Furnished
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	Rs.	
Belideniya land	889,000	Title deed
Lodging, food and beverages and other expenditure (Kataramaga)	1,260,320	Documents relating to confirmations.

1:2:3 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
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(a) Financial Regulation 176(3)	Action had not been taken to recover from the officer concerned the arrears of bid amounting to Rs.2,964,625 on behalf of Lot No.21 with reference to the auctioneering of gem land at Kataragama.
(b) Government Procurement Procedure Guidance 2.14.1	The head of the institution could approve deviations from calling for quotations upto Rs.250,000 on very special circumstances. However, contravening it, a sum of Rs.825,440 had been paid to a private institution to construct a security fence at the auctioneering land at Kataragama.
(c) Paragraph 2 of the Public Finance Circular No. 340(1) dated 18 December 1995.	A report from the valuation board comprising the Head of the Department, Chief Accountant, a representative from the Department of Motor Traffic and a Mechanical Engineer of Motor Vehicles should be obtained before commencement of disposal activities relating to motor vehicles. But, vehicles had been auctioned without doing so.
(d) Pubic Administration Circular No. 13/2008 dated 26 June 2008.	Approval of the Secretary to the Ministry had not been obtained for additional fuel used in excess of the fuel limits amounting to Rs.1,155,000.
(e) Letter of the Director General of the National Gem and Jewellery Authority dated 31 August 2004.	The surface soil that comes out while mining had not been refilled so as to close the mine.

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| (f) | Circular of the National Gem and Jewellery Authority No. NGJA/16/2/2012/Backhoe dated 9 March 2012. | Instructions had been given not to wash the Illam obtained in such a manner so that it could mix with rivers, streams and water ways. An on the spot inspections revealed that there were few instances where action had not been taken accordingly. |
| (g) | Management Services' Circular No. 49 of 24 December 2012. | Bonus amounting to Rs.7,031,445 at the rate of Rs.40,000 each and payments for leave unavailed of amounting to Rs.3,821,351 had been paid during the year under review without the approval of the Department of Management Services. |

1:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) A balance of Rs.1,331,949 continued to be brought forward under accounts receivable for over 2 years. Included in that was a balance of Rs.33,844 exceeding 5 years.
- (b) Seventeen cheques valued at Rs.3,475,412 had been returned. Of these, 2 cheques valued at R s.30,650 had exceeded a period of 2 years and action had not been taken to settle it.
- (c) Ten per cent retention money amounting to Rs.2,568,873 existed under accounts payable for over 5 years. Action had not been taken to credit this to income.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2012 had resulted in a pre tax net profit of Rs.350,928,300 as compared with the pre tax net profit of Rs.27,812,402 for the preceding year. The financial results of the year under review had shown in improvement of Rs.323,115,898 as compared with the preceding year. Auctioneering of land at Kataragama, income from export services charges, income from machinery mining service charges and income from testing charges amounting to Rs.246,716,272, Rs.30,956,927, Rs.7,728,500 and Rs.27,690,075 respectively had attributed to the improvement in financial results.

2:2 Analytical Financial Review

The total income of the Authority for the year under review had increased by 144 per cent and the total expenditure had increased by 82 per cent as compared with the preceding year. During the year under review, the cash flow generated from net operating activities amounted to Rs.404,192,548 and it was Rs.51,016,525 during the preceding year. As a result, the cash generated from operating activities had increased by Rs.353,176,023.

3. Operating Review

3:1 Management Inefficiencies

The following observations are made.

- (a) Twenty two trade stalls had been allocated for the Jewellery Shanghai Exhibition. Of these, 4 stalls had been offered to a foreign organization, free of charge. The Authority had incurred a loss of Rs.1,231,356 as 3 stalls had not been made use of.

- (b) The contract for removal of the Kalawana-Kalupalama lode had been awarded for the highest bid of Rs.2,700,900. However, acceptance of the contract had been rejected stating that it was unable to accept it due to external pressure. It had been awarded to another contractor for Rs.939,920 by calling for bids on the discretion of the Regional Manager. Accordingly, the loss caused to the Authority was Rs.1,760,980.
- (c) A fund had been created from the amount recovered from exports income since 2005. Of this, a sum of Rs.92,498,578 had been given to a private institution in April 2009 for constructing a standard laboratory. However, the said construction had not been completed even by the month of June 2013.
- (d) The total income receivable from trade stalls given on rent at the World Trade Centre for the years 2008, 2009, 2010 and 2012 amounted to Rs.4,903,336. In addition, a sum of Rs.424,169 was due as electricity charges.
- (e) It was observed that there were instances where mines had not been closed after completion of activities relating to gemming. The authorities concerned had not taken care in this regard leaving room for mosquito worms to grow.
- (f) Instances were observed where the environment had been greatly affected as a result of mining in protected areas which had been reserved for rivers, streams and water sources.
- (g) Unauthorized gemming and the usage of unauthorized blasting materials for breaking stones with the aid of becko machine had resulted in problems pertaining to habitation and environment.
- (h) Two rooms of the head office building had been given on rent to external persons. The rent agreement had not been updated on the required date. As a result, the arrears of rent for the year under review amounted to Rs.300,245.

3:2 Administration of Staff

A replacement plan for the managerial posts of the Authority was not in existence as required by Paragraph 9.3.1(viii) of the Public Finance Circular No. PED/12 dated 2 June 2003 and appointments for many executive posts had been made on temporary, contract, acting and covering up basis. The following observations are made in this connection.

- (a) A sum of Rs.729,610 had been paid as allowances for acting or covering up duties for 7 posts including 6 executive posts.
- (b) Appointments could be made for an approved post only. However, an officer without basic qualifications had been recruited on a contract basis for the post of sales officer, which is not an approved post.
- (c) A Gem Sales Promotion Consultant had been recruited from 01 October 2010 and a sum of Rs.1,350,000 had been paid for a period of 27 months. The service expected from the officer had not been obtained.
- (d) Even though the Board may appoint such officers, servants and agents as it considers necessary, in terms of Section 33 of the enabling Act, for the efficient exercise of its powers, duties and functions, the recruitment of Mine Supervisors had not been done in a manner to facilitate attachment to all regions.

3:3 Apparent Discrepancies

According to the newspaper notices, the advance payable for auctioneering the gem land at Kataragama should have been paid in cash. However, contravening this, a cheque for Rs.2,964,625 had been obtained for a block of land after 12 days of the auctioneering and the cheque had been dishonoured. Action had not been taken against officers responsible with regard to the loss caused to the Authority.

3:4 Resources Released to other State Institutions

Staff of the Authority had been released to another state institution contravening the Public Finance Circular No. PED/12 dated 02 June 2003. Details are as follows.

- (a) Two officers had been deployed for services at the Ministry during the period May 2010 to December 2012 and the salaries and allowances paid in this connection amounted to Rs.1,157,539.
- (b) A sum of Rs.771,861 had been paid as air fare and other expenditure on behalf of the staff of the Ministry.
- (c) Special allowances amounting to Rs.961,000 and transport and lodging charges amounting to Rs.117,960 had been paid to few officers during the period February to May 2012, contravening the said Circular.

3:5 Creation of a Fund for Payment of Gratuity

Although a sum of Rs.10,848,634 had been provided for payment of gratuity in terms of Payment of Gratuities Act, a method had not been adopted to supply funds for any contingent liabilities.

4. Accountability and Good Governance

4:1 Corporate Plan

The following observations are made.

- (a) The performance of the Authority in terms of the Corporate Plan were observed as follows.

Targeted Activity -----	Actual Performance -----
(i) Census of the Gem and Jewellery Industry	Out of the 9 provinces, census had been carried out in Colombo, Gampaha, Rathnapura, Galle and Matara Districts only.
(ii) To improve the environmentally friendly gem mining technology and to introduce them.	A sum of Rs.11.2 million had been provided. However, closing of mines that had been abandoned and the tree planting project had not been carried out during the year.
(iii) To obtain legal validity pertaining valuable alloys analyzed and sealing of all jewellery products.	Although a sum of Rs.6.6 million had been provided, the expected work had not been accomplished.
(iv) To create abled human resources necessary to meet the requirements of the Gem and Jewellery Industry.	A sum of Rs.4,700,000 had been provided and 9 per cent of the estimated expenditure amounting to Rs.403,106 had been utilized for training of employees.

- (v) To set up a special task force to combat illegal mining of gems. An estimated income of Rs.36,100,000 was expected to be earned by raiding illegal gem mining. However, the income earned was Rs.8,706,832 representing 24 per cent of the estimated income. 321 raids alone had been carried out.
- (b) The following projects included in the action plan for the year under review had not been fulfilled.
- (i) To establish a national plan for the gem and jewellery industry.
 - (ii) To provide facilities to reduce geuda export upto “O”.
 - (iii) To provide facilities for quality development by the year 2013 in collaboration with the Export Promotion Board and the Gem and Jewellery Association.
- (c) The following activities to be fulfilled according to the Corporate Plan during the year 2012 had not been fulfilled.
- (i) To establish a “Gem Gallery” at the National Museum to bring awareness among Sri Lankans and foreigners regarding gems of Sri Lanka.
 - (ii) To provide facilities to training institutions with regard to the needs of the Gem and Jewellery Industry.
- (d) The following activities had not been fulfilled in terms of Section 14 of the Gem and Jewellery Authority Act.
- (i) To provide necessary assistance among the gem industry, jewellery industry and the government departments for development and co-ordination of the gem industry and the jewellery industry of Sri Lanka.
 - (ii) To regularize and control safety measures that should be taken to service norms and conditions of those who work in the gem industry and jewellery industry of Sri Lanka, especially to safeguard them from risks to their lives and bodies.

4:2 Budgetary Control

The following matters are observed.

- (a) The amount estimated for foreign trade exhibitions as per export promotion plan was Rs.10,000,000. However, the actual amount spent was Rs.30,093,075.
- (b) The achievement of budgeted data ranged from 16 to 389 per cent. As a result, it was observed that the budget had not been utilized as an effective instrument of management control.

4:3 Systems and Controls

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

- (a) Accounting
- (b) Maintenance and control over vehicles
- (c) Supervision of norms of the gem mining licences
- (d) Auctioneering of gem lands
- (e) Income administration
- (f) Human resources management