

1.1 Qualified Opinion

The audit of the financial statements of the Gem and Jewellery Research and Training Institute for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 a summary of significant accounting policies, 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 the 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 matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the National Institute of Cooperative Development as at 31 December 2019, and of its financial performance and 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 based 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 intend 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 Sub-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 scepticism 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant standard.	Comments of the Management	Recommendation
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(a) Since action had been taken to identify revenue on cash basis and state in the financial statements contrary to the Sri Lanka Public Sector Accounting Standards 01 and 10, receivable course fees income of Rs.2,247,500 pertaining to the year under review was not shown in the financial statements.	When presenting financial statements, accounting policies are stated. Action has been taken to state expenditure and income under accrual basis and cash basis respectively in compliance with the accounting policies.	Action should be taken in accordance with the Standard.

- (b) In accordance with Sri Lanka Paragraph 49 of Sri Lanka Public Sector Accounting Standard 07, the entire class of property, plant and equipment to which a certain asset belongs should be revalued. On the contrary, one out of 09 motor vehicles owned by the Institute had been revalued based on the assessment of Rs.4,300,000 obtained in insuring the said vehicle. As proper evaluation on the useful life of the motor vehicles had not been carried out as per the Paragraph 65 of the standard, fully depreciated 05 motor vehicles costing Rs.31,565,440 which were further in use had not been revalued and disclosed in the financial statements.
- The book value of this motor vehicle is Rs.9.5 million, whereas its market value is Rs.4.3 million. Therefore, out of annual payment of Rs.237,000, a sum of Rs.131,000 has been deducted as the insurance premium. The resultant economic benefit to the Institution is Rs.106,000. The other vehicles too will be revalued in this year. Action has been taken to revalue the useful life of all other motor vehicles of the Institute in accordance with the Paragraph 65 of Sri Lanka Public Sector Accounting Standards 07 and to state the depreciations in the financial statements according to their new useful life. The adjustments made have been stated in the notes to the accounts. Therefore, it is not possible to accept the fact that the fully depreciated motor vehicles worth Rs.31,565,440 were further in use.
- Action should be taken in accordance with the Standard.

1.5.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
Although the useful life of computers and software had been assessed as 04 years and made depreciation accordingly. On the contrary to that policy, without properly assessing useful life of the computer software costing Rs.1,688,033 purchased in the year 2016, it had been assessed as 16 years and depreciated at 6.25 per cent.	Herein, once the computer software costing Rs.1,688,033 purchased in the year 2016 were depreciated for 03 years, the useful life thereof has been revalued as another 4 years. Accordingly, the net cost of the asset have been further depreciated at 25 per cent and shown in the notes to the accounts.	Action should be taken in accordance with the accounting policies.

1.5.4 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
A sum of Rs.3,577,394 spent by the Institute for the conduct of courses relating to the Poverty Alleviation Project had been stated as an amount due from the National Gem and Jewellery Authority. That amount had not been stated in the financial statements of the Authority as a payable balance and the recovery of above balance had become controversial.	The Rs.3,577,304 to be received under the Poverty Alleviation Project has been stated as a receivable amount in the books of the Institute and it is a responsibility of the National Gem and Jewellery Authority to state the above sum as a payable amount in its book. The Authority has been informed in this regard in several instances.	Action should be taken to state the amount substantiated as receivable in the accounts.

1.5.5 Funds Payable

Audit Observation	Comments of the Management	Recommendation
Despite lapse of 3 years, the refundable deposit of Rs.174,868 of 77 students who had completed the courses had not been settled.	From among these students, 20 students had not completed courses up to date. The other 46 students have been informed in writing and given a period of 03 months.	Action should be taken to refund the deposits.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) F.R.371 of the Financial Regulations as amended by the State Finance Circular No.03/2015 dated 14 June 2015.	Even though ad hoc imprest should be settled immediately after the completion of the relevant purpose, advance of Rs.435,370 had been settled after a delay ranging from 20 days to 62 days in 26 instances.	Staff was informed to reimburse advances within 14 days or soon after the completion of the purpose. Action will be taken to avoid these shortcomings in future.	Action should be taken in accordance with the Financial Regulations.

- (b) State Finance Circular No.01/2014 dated 17 February 2014. Action had not been taken to prepare Annual Action Plan of the Institute and obtain relevant approval as required by the Circular. The draft action plan for the year 2019 had been approved by the Board of Directors on 09 August 2018. Nevertheless, allocation of funds from January to April, 2019 was made by the vote on account. Having prepared the action plan in accordance with the Budget passed on 01 May 2019, approval of the Board of Directors has been obtained in May. Action should be taken in accordance with the provisions of Circular.
- (c) Section 6.5.3 of the Public Enterprises Circular No.PED/12 dated 30 June 2003. Annual reports inclusive of audit reports for the years 2017 and 2018 had not been tabled in Parliament even by 31 May 2020, the date of audit. The annual report for the year 2017 together with the Cabinet Paper has been handed over to the Ministry of Mahaweli Development and Environment on 30 July 2019 to table in Parliament. Action should be taken in accordance with the provisions of Circular.

2. Financial Review

2.1 Financial Results

The operations of the Institute for the year under review had resulted in a deficit of Rs.5,111,440 as against the profit of Rs.2,787,629 for the preceding year, thus observing a deterioration of the financial results by Rs.7,899,069. This deterioration was mainly attributed to the increase in the expenditure on personal emoluments by Rs.4,974,364 and payments for obtaining services by Rs.4,622,824.

In analyzing the financial results of the year under review and 04 preceding years, the Institute had recorded a surplus in the years 2016 and 2018, whereas deficits were observed in the years 2015, 2017 and the year under review. However, when taking into consideration the employees' remuneration and the depreciation for the non-current assets, the contribution of the Institute had gradually increased. Accordingly, as compared with the preceding year, it had increased by 100 per cent and become Rs.76,269,673 in the year under review.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) During the period from 2009 to 2014, an overpayment of Rs.2,580,281 had been made to 18 employees of the Institute as their increments and allowances. Without being taken action to recover the amounts due from 11 of the above officers in the active service promptly, action had been taken to recover it in monthly installments from Rs.50 to Rs.1,942 until their retirement contrary to the Financial Regulation 119. The total amount due from those officers as at the end of the year under review was Rs.1,481,781. A sum of Rs.227,652 due from 03 officers who are not in the service at present had not been recovered.	The said salary increments have been granted according to the approval of then Chairman and the Board of Directors of the Institute. The grant of these increments in the year 2009 has not been subject to any audit query until the year 2014. The due amount of Rs.201,309 of then Deputy Director General has been settled by now. Since this overpayment of salary is not a fault of the officers, action has been taken as per the instructions of then Chairman to deduct the dues in installments until the retirement of the employees.	Overpayment of salaries should be recovered as a lump sum.
(b) Due to grant of advances regardless of the requirements, the total advance of Rs.101,900 given in 11 instances and more than 40 per cent of the advances of Rs.550,700 given in 35 instances had been settled back without being spent.	Owing to various specific reasons, total advance amount has to be settled.	Advances should be granted taking into account the requirements.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to the Action Plan, out of Rs.3,400,000 allocated for 5 activities of the Research Division, a sum of Rs.646,000 only had been spent and the financial progress	According to the Action Plan, the provisions allocated for 07 activities of the Research Division amounted to Rs.9.72 million.	Action Plan should be practical and the Institute should take steps to achieve its targets.

thereof had ranged from 7 per cent to 35 per cent. Expenditure in excess of the plans had been incurred on 02 activities of the Administration and Human Resources Division and that excess had ranged from 126 per cent to 138 per cent.

The amount spent was Rs.7.23 million and as a percentage it was 74.4. Out of the allocations made for capital provisions, the Treasury had not granted Rs.4.565 million to the Institute. Even though expenditure had been incurred in excess of the provisions for the activities of the Human Resources Division, that is, for the purchase of office equipment and research equipment, expenditure has been managed within the total capital expenditure estimate.

- (b) The following observations are made on the Project for the Exploration and Assessment of Gem Deposits in Sri Lanka (2008-2031)

- (i) Even though the Department of Management Services had granted approval in 2018 to recruit 22 employees and a consultant on contract basis for the project in addition to the staff of the Institute, relevant recruitments had not been made even in the year under review and the project had been implemented by recruiting 05 graduate trainees.

Although the estimated cost of the project was Rs.15.3 million according to the project proposal, owing to lack of provision to pay salary of the consultant within the limited provision of Rs.04 million issued by the Treasury, recruitment to that post cannot be made. It is expected to make the relevant recruitment soon after the provision is made. In comparison with the salary/allowances of the development projects affiliated to the government, the monthly allowances relating to the other posts remained at a minimum level. The Department of Management Services did not agree to increase those

Action should be taken to recruit the relevant staff.

allowances. Recruitments are expected to be made subsequent to the receipt of Treasury provisions for the year 2020. The contribution has been obtained through the requests made by the universities for training undergraduates and involvement of the graduates for job oriented trainings.

- (ii) Even though plans had been drawn to explore and map the gem deposits in 50 Divisional Secretary's Divisions in 05 districts during the period 2017-2021 and issue the final reports under the first phase, maps pertaining to 06 Divisional Secretary's Divisions had been prepared and final reports had been issued by the end of the year under review. Explorations had not been even initiated relating to 40 Divisional Secretary's Divisions. The Gem Potential Maps had not been completed for the Divisional Secretary's Divisions of Thawalama, Pelmadulla, Akuressa and Eheliyagoda in which the explorations had been commenced.
- Due to inadequacy of the Treasury provisions and delays of the necessary approval, qualified individuals could not be recruited. Accordingly, the project had to be implemented with the assistance of one Senior Research Officer, 05 Research Officers and 03 Field Assistants of the permanent cadre of the Institute served during the period from 2017 to 2019 and therefore, expected targets could not be achieved. Activities relating to 10 Divisions have been completed by now and 8 Gem Potential Maps have been prepared. The project is being implemented with under and limited resources in order to make a significant contribution to the National economy.
- Action should be taken to achieve the expected targets.
- (iii) Cabinet approval had been granted to involve the National Gem and Jewellery Authority for this project and although implementation of a pilot
- Five lands situated in the Divisional Secretariat, Haldummulla in Badulla District have been referred to the National Gem and Jewellery Authority for the
- Action should be taken in accordance with the Cabinet approval.

project in 05 areas believed to be abundance with gems had been assigned to the National Gem and Jewellery Authority, it had not been implemented. implementation of a pilot project for auctioning gem lands identified through the project. A field tour had been done for the field inspection and mining relating to the project is to be done at the cost of the Authority.

- (c) An electric furnace purchased at a cost of Rs.10,977,344 in the year 2013 for gemstone heat treatment remained idle for more than 05 years and subsequently, a sum of Rs.2,384,957 had been spent in the years 2018 and 2019 to bring it to usable condition to earn income. The expenditure of Rs.1,402,222 incurred by the Institute to install electric circuits at the building belonging to the National Gem and Jewellery Authority in which the furnace had been installed, had not been reimbursed up to the end of the year under review. Even though the furnace had been purchased in the year 2013, as there was no required electric capacity at the Ratnapura Regional Centre, it could not be used for the expected purposes. According to the instructions of the Secretary to the Ministry of Environment, relevant activities have been carried out to install that furnace on a land given in the premises of the Gem and Jewellery Authority Office, Ratnapura. Since the said furnace has been used in the public service from 11 February 2020, it has been possible to provide the expected service to the field. Necessary steps should be taken to use the assets effectively.
- (d) Out of the provisions received for the project of introducing more effective and efficient methods on augmenting the colour and clarity of semi-precious stones, implemented on the financial assistance of Rs.10,481,088 of National Science Foundation, a sum of Rs.3,132,048 or 30 per cent had not been spent as at the end of the year under review and the Pressure Vessel worth Rs.1,130,000 which should have been purchased in the year 2018 for the project to be completed by The project year of this project ends on 21 April but not on 31 December. Procurement activities relating to the purchase of chemicals and Pressure Vessels for the project have been initiated. Although recruitments were made to the posts of Technical Assistant and Labourer, as the allowances allocated by the National Science Foundation being mismatched, those Action should be taken to achieve the expected performance.

21 April 2020 had not been purchased during the year under review. The works such as Oiling, Impregnation, Waxing, Diffusion, Glass Filling and Bleaching to be carried out in the year 2018 and 2019 had not been completed even by the end of the year under review. Similarly, although a Technical Assistant and a Labourer should be recruited for the project, without being made those recruitments, only a research student had been recruited.

employees vacated the service and it has not been possible to recruit new employees. However, action has been taken to perform the project activities by employing the employees of the Institute without making additional payments.

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| (e) | During the year under review, the Institute had not conducted a course for which plans had been drawn to enroll 30 students. Less than the expected number of 492 students had been enrolled for 6 courses and the percentage of the enrollment had ranged from 42 per cent to 68 per cent. | Although plans had been drawn to commence soldering and electroplating courses in the year 2019, the course could not be initiated due to arising unexpected issues regarding the electricity supply. Even though stones embedding course was scheduled to be commenced on 30 May 2019, the course had to be temporarily suspended due to not receiving an adequate number of applications, and owing to the Easter Sunday Attack. | The Action Plan should be practical and action should be taken to achieve the targets thereof. |
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3.3 Idled or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Two vehicles belonging to the Institute remained idle since a period of 4 years and 3 years.	In calling for bids for the disposal of vehicle bearing No. PB 7848, bids had been presented quoting prices less than its assessed value and as such, the disposal was rejected by the Committee. Approval of the Secretary to the Ministry has been sought	Action should be taken to sale or dispose of the assets.

to dispose of the vehicle again. Immediately after the receipt of approval, action will be taken for the disposal. It is expected to repair the Three-wheeler bearing No.QW 1185 and used for the short distance travelling of the Institute.

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Although the Procurement Plan should be approved by the Board of Directors prior to beginning of the year, the Procurement Plan for the year under review had been approved on 03 May 2019 and the Institute had not prepared the Procurement Plan comprehensively and a Procurement Time Table as per the Guideline 4.2.2 as well had not been prepared.	The draft Procurement Plan,2019 together with the draft budget estimate were presented to the Board of Directors on 09 August 2018 and approved by the Board of Directors. Nevertheless, it is kindly inform that the budget was passed from 01 May 2019. Accordingly, action has been taken to forward the estimated procurement plan to the Board of Directors and obtain the approval.	The Procurement Guidelines should be complied with and approval for the Procurement Plan should be obtained on time.
(b) Even though provisions of Rs.200,000 had been made by the budget for the purchase of gem samples during the year under review, relevant purchases had not been made and having prepared plans for the purchase of office equipment worth Rs.1,100,000, assets valued at Rs.1,520,813 had been purchased.	Of the allocations made for the purchase of office equipment and gem samples, a sum of Rs.1,520,000 has been spent for the purchase of office equipment. Accordingly, the percentage is 138 per cent. Even though action was taken to register suppliers for the purchase of gem samples for the year 2019, it could not be proceeded with as any supplier was not registered.	Action should be taken to make purchases in accordance with the plans.

3.5 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
The approved cadre of the Institute was 136 as at 31 December 2019 and 56 or 41 per cent of which remained vacant. Recruitment to the post of Director (Research) which had fallen vacant for 9 years had not been made even up to the date of audit.	A request has been made to the Department of Management Services through the Ministry to make recruitments for 56 vacant posts. Since a qualified candidate had not applied for the post of Director (Research), recruitment could not be made to that post. Action will be taken to make the relevant recruitment after the approval is received.	Action should be taken to fill vacancies.