

Head 440 - State Ministry of Gem and Jewellery Related Industries

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Gem and Jewellery Related Industries for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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. The Summary report including my comments and observations on the financial statements of the State Ministry of Gem and Jewellery Related Industries was issued to the Accounting Officer on 31 May 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report in terms of Section 11(2) of the National Audit Act was issued to the Accounting Officer on 31 May 2022. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018 will be tabled in Parliament in due course.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the State Ministry of Gem and Jewellery Related Industries as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Property Plant and Equipment

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Amounting to Rs.1,719,689 was added to the opening balance of property plant and equipment for office equipment, computer equipment and communication equipment and the details of the items and values that made up that value were not submitted to the audit to verify its accuracy.	It is advised that there should be attached only the non-financial assets report (SA-82) generated by the New Cigar's Web Application as specified format for financial statements (ACA-6) as per public accounts guidelines No: 2021/03, No: 05 of the guideline for the preparation of financial statements.	Detail reports of how the value of property plant and equipment is formed should be maintained.

1.6.2 Non Maintenance of records and Books

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) Though a Fixed Asset register should be maintained according to the treasury circular No:842, it was not done.	A register of fixed assets is maintained.	Fixed Asset Register should be maintained.

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| (b) | In terms of the Financial Regulation of Democratic Socialist Republic of Sri Lanka F.R.110, the Register of Damages should be maintained and updated. | A register of damages is maintained. | A Register of Damages should be maintained. |
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2. Financial Review

2.1 Expenditure Management

The Following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The estimated net provision for recurrent expenditure under program 1 and 2 was amounted to Rs. 206, 947,000 of which only amounted to Rs. 123, 849, 582 had been utilized. Thus the provision for recurring expenses of Rs.83,097,418 had not been utilized. It was 40 percent of the net provision. Accordingly, there were savings ranging 30 percent to 100 percent were in 15 recurring expenditure objects.	Due to covid 19 situation the activities of the institute became unexpectedly slow, insufficient staff, economically spending and advice by the National Budget Department to incur only the most essential expenses according to the decision of Cabinet of Ministers led to savings.	Efforts should be made to effectively utilize the provisions provided.
(b) The budgetary estimated net provision for capital expenditure under program 1 and 2 was amounted to Rs.87,300,000 while the actual expenditure was amounted to Rs. 32, 781, 644, thus it was observed that Rs. 54, 518,356 of the provision was not utilized and it was 62 percent of the net provision. Savings ranged from 61 percent to 100 percent in 4 capital expenditure objects were remained.	-do-	-do-

- (c) “Other” expenditure objects and Rehabilitation and improvement of Capital Assets-Although the provision of Rs.5,000,000 was transferred to the vehicle expenditure objects under F.R 66 in the year under review amounted to Rs.4,728,542 remained in that expenditure object at the end of the year under review.
- Due to repair of the Ministers vehicle, Rs. 5 million had to transfer under 66. Due to the instructions given by the Budget Department to carry out only essential expenses according to the Decisions of the Cabinet the provisions were left.
- The need is properly identified and transferred should be made under F.R

2.2 Non - compliance with Laws, Rules and Regulations

Audit Observation	Comment of the Accounting Officer	Recommendation	
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Reference to the Laws, Rules and Regulations	Non compliance		
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(a) Asset Management circular No 01/2017 dated 28 June 2017.	Information on purchases and disposals of assets had not been submitted to the Comptroller Generals office.	It has been arranged to submit these reports from the year 2022.	Actions should be done in terms of the Circulars.
(b) Public Administration Circular No: 2018/02 dated 24 January 2018.	Human resources plan was not prepared as per Annexure 02 format.	Human resources plan is being prepared. prilimenary activities has begun.	-do-

3. Operating Review

3.1 Non- Performance of Functions

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) In the year 2020, the legal draftman had informed that the approval of the Cabinet should be obtained to amend the Act establishing the National Gem and Jewellery Authority which is under the Ministry and approval of the Cabinet had not been obtained by the end of the year under review.	On the occasion of the covid 19 pandemic, the draft Act had to be revised due to the decrease in trends in the world market related to the Gem and Jewellery Sector. Accordingly, on 5 November 2021, the relevant Cabinet Memorandum to amend the Act has been submitted to the Secretary of the Ministry of Industry, according to a request from the Cabinet office, A concept paper is also being prepared.	Steps should take to amend the National gem and Jewellery Authority Act immediately.
(b) It was stipulated that an import control license should be obtained while importing gold and for that an important control license fee of 0.4 percent on the CIF value should be paid. Due to this, the Ministry had proposed to the Ministry of Finance to abolish the said license fee based on the notification of the businessmen about the inconvenience caused to the jewellers, Also, the National Gem and Jewellery Authority had reported that compared to the amount of gold imported from foreign countries jewellery has	Due to the ongoing foreign exchange crisis, in the year 2021, the import and export controller had orderd that an import control license should be obtained for the import of gold. and for that, an import control license fee of 0.4% on the CIF value should be paid. Gold is mainly imported into Sri Lanka for value added export and for consumption in Sri Lanka. there fore not all gold imported into Sri Lanka is exported accordingly. I point out that the tax imposed on gold in the year 2018 and 2021 is not for the purpose of reducing the consumption of gold in Srilanka or to discourage Sri Lankan jewellers.	A systematic program should be developed to earn foreign exchange through the export of gold jewellery.

not been exported and thus there has been no increase in foreign exchange in the country.

- (c) During the year under review, 120 public complaints received regarding the services providing by the National Gem and Jewellery Authority to the public and the problems and environmental damage when issuing licenses for gemming. Though that Public Complaints were referred to the Authority to examine and to take necessary measures. Only 10 of them had been answered to the Ministry. The Ministry has not taken any steps to take necessary actions and further investigation to this matter.
- These public complaints were of various types such as complaints related to irregularities by officials/institutions, complaints related to gem mining licenses, problems related to corporate affairs and problems related to the jewellery sector. investigations will be conducted and reported by the relevant regional officers of the Authority regarding those complaints. this work takes considerable time and currently 43 of these complaints have been examined and necessary work has been completed.
- Public complaints should be investigated and resolved promptly.
- (d) It was observed that the following deficiencies continue to exist in the 2 institutions under the Ministry in relation to the export of mineral resources, including gems. which are exported without value addition.
- (i) Presently the gems found in Sri Lanka are cut and polished without value addition or exported abroad as rough gems. during the period from Gemstones found in Sri Lanka are allowed to be exported abroad without value addition only when there is no technical facility to add value to those gems in Sri Lanka. 25% of the value of the gems (out of the dollar value) must be paid to A method should be developed to add value and turn them in to products that can be earn high export income.

September 2015-2021 the Gem and Jewellery Authority the value of gems as service charge when exporting expoeerted without gemstones for which value addition value addition was Rs. is not possible. 127,635 million.

- (ii) Due to lack of proper program during the past period to increase the color and clarity of low value gem stones, those stones were exported with low value. For this purpose, the Gem and Jewellery Research and Training Institute conducted a research on the financial assistance of the National Science Foundation and its report was given in May 2021, but the necessary measures were not taken into account.
- Compared to other countries in the world, Sri lanka is at the fore front of the technology to increase the color and clarity of low value gem stones and this work is being carried out by private businessmen and further investigations are also carried out regularly in this regard. Such tests take considerable time to be successful. Also since the resources that the government can invest is limited, for this purpose the University of Sabaragamuwa contacted with the gem business community to facilitate the tests necessary to color the gem.
- A proper program should be developed to enhance the color and clarity of low value gem stones.
- (iii) The report stated the progress of the Ministries vistas of prosperity that the export of Geuda without value addition has been stoped. but during the period of september 2015 – 2021, by exporting Geuda, 306 million had been earned.
- Due to technical reasons, low quality gemstones such as Geuda, katta and Ottu Young have been allowed to be exported in this country. This has enabled the country to earn some amount of foriegn exchange.
- A program should be developed for value added to export Geuda.

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| <p>(iv) A furnace purchased by Gem and Jewellery research and Training Institute for Geuda heating at a cost of Rs 10,977,344 in 2013. remained idle for 6 years. during 2020-2021 improvements were made to this furnace with spare parts and electrical circuits at a cost of Rs. 3,953,540. during the period 2020 – 2021 the machine was used for 5 research runs of only 14 days.</p> | <p>Necessary arrangements were made to expedite repairs to the electric furnace for Geuda heating. the spare parts needed for that should have been imported and obtained in Sri Lanka under H.S. code numbers. but since the import of the items imported under those code numbers was suspended and the import was allowed only a 90 day credit basis, it took considerable time to import the necessary spare parts and repair the electric furnance.</p> | <p>This furnace should be used effecient to accomplish the desired tasks.</p> |
| <p>(e) Gem resources believed to be underground have been explored using modern high technology and used to strengthen the production process of the country. Gem and Jewellery Research and Training Institute under the Ministry has identified and mapped the areas where gem deposits are located in Sri Lanka through projects related to the exploration and assessment of gem deposits in Sri Lanka. proceedings and final reports were being issued, in the implementation of this project, it was observed that the results obtained from the project are in low condition due to the implementation of this</p> | <p>Agreed at present arrangements have been made for coordination between the two institutions.</p> | <p>Proper coordination should be maintained between the 2 institutions under the ministry to effectively achieve the objetives of the Ministry.</p> |

project without proper coordination between Gem and Jewellery Authority and Gem and Jewellery Research and Training Institute.

3.2. Assets Management

Audit Observation	Comment of the Accounting Officer	Recommendation
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(a) The Ministry had been maintained in a building that did not belong to the Ministry and Rs 12,107,471 had been spent to renovate the office of the Minister of State, thus actions had not been taken recover the money spent on the renovation of the building which does not belong to the Ministry.	The State Ministry of Home Affairs had informed to take necessary steps to carry out the repairs work at the expense of Ministry.	Arrangements should be made to recover the money spent from the relevant Ministry.
(b) It was observed that the Ministry is using 5 vehicals owned by Other Institutions without formally taking them over.	Arrangements are being made to take over.	Arrangements should be made to take over formally.

3.3 Losses and damages

Audit Observation	Comment of Accounting Officer	Recommendation
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According to F.R 104 (4), A full report should be submitted within 3 months from the date of the loss, but in the case of 3 vehicle accidents that occurred in the year under review, the same had not been done by 25 May 2022.	About the accident of the vehical F.R 104 (4) the investigation committee has been appointed and reminders have been given in the letter dated 20 May 2022 to provide the investigation report promptly. As soon as the report is recieved further work will be done.	should be act interms of F.R 104(4).

4. Human Resources Management

Approved cadre and Actual Cadre.

Audit Observation

**Comment of the Chef
Accounting Officer/
Accounting Officer**

Recommendation

Approved cadre in the year under review was 40 while the actual cadre was eleven. Accordingly number of vacancies were twenty nine.

Request was made to complete the cadre vacancies.

Relevant actions should be taken to fill complete the vacancies of the approved cadre considering the service requirements.