

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, 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 Financial Act No. 38 of 1971. My comments and observations which I consider should be reported 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 2022, 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 intend 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, 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 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies use 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 Authority'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 Authority 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;
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- 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 the particular Standard	Management Comments	Recommendation
(a) Even though the payment of cash amounted to Rs. 113,559,640 for work-in-progress in the year 2022 should be shown as a cash outflow under the investing activities in the cash flow statement, according to Sri Lanka Accounting Standard 07, it was not done. Furthermore, in the year 2022, the value of gratuity payment made in cash, amounting to Rs. 11,625,870, should be shown as a cash outflow under operating activities. However, only Rs. 9,630,080 which is less than Rs. 1,995,790 was recorded as a cash outflow.	Let us inform you that we agree to show the Rs. 11,982,547 paid for the work-in-progress separately as investment activities in the cash flow statement. To facilitate this, we will deduct the investment in the treasury bills received for this purpose. The gratuity value pertains to the gratuity payment for officers retiring on January 3, 2023, and it is included in the expenses payable in Note No. 24.	Actions should be taken in terms of Accounting Standards.
(b) Although tax should be calculated in accordance with Sri Lanka Accounting Standard 12, Section No. 33(3) of the Inland Revenue Tax Act No. 45 of 2022 specifies that the tax should be calculated, taking into consideration a tax rate of 24 percent for the first six months and 30 percent for the second six months. However, the tax expense was understated by Rs. 11,833,776 due to the calculation of income tax using a 24 percent tax rate for the entire period. Furthermore, due to the use of different tax rates as mentioned, the deferred tax liability was understated by Rs. 6,649,335	Since the assessment year for which the Authority pays income tax starts on January 01, 2022, the tax has been calculated at the rate of 24% for the entire year. According to Section 33(3)(ii)(c) of the Inland Revenue Act No. 45 of 2022, the recommended tax payments will be made in the future, and adjustments will be made for the under-provision of tax accounts.	Actions should be taken in terms of Accounting Standards.
(c) According to section 120 of Sri Lanka Accounting Standard 19, all service expenses related to gratuity should be reported in the comprehensive income statement, but in calculating gratuity provisions, the value of gratuity expenses for the year was Rs.1,930,028 and the interest expense was Rs.5,444,646 including a total of Rs. 7,374,674 as expenses	In the year under review, a total gratuity expenditure of Rs. 7,374,674 is detailed under Note No. 22 of the 2022 Statement of Accounts. Additionally, Rs. 7,361,043 in actuarial gains will be shown in the Statement of Comprehensive	Actions should be taken in terms of Accounting Standards.

and actuarial gain of Rs.7,361,043 as other comprehensive income were not recorded and the net result of Rs. 13,631 was shown in the financial statements as a gratuity expense.

Income, as indicated in the audit. According to Section 57 of Sri Lanka Accounting Standard 19, under the Defined Benefit Plan Method, the gratuity expense of Rs. 13,631 for the period has been presented in the Income Statement.

- (d) According to Section 10 of Sri Lanka Accounting Standard 37, the amount expected to be paid (Possible Obligation) as a result of a past event should be disclosed in the accounting notes as a contingent liability. However, this is not included in the accounting notes, and only Rs. 7,700,000, which is the amount to be paid as compensation, was accounted for.

In anticipation of the possibility of future payments related to these cases, Rs. 7,700,000 has been allocated. The allocation and write-off from the profit will only be done on specific matters in accordance with the audit.

Actions should be taken in terms of Accounting Standards.

1.5.2 Accounting Policies

Audit Observation

When identifying impairment losses related to assets, it should be noted that these assets should be reviewed annually, and the impairment loss value should be allocated in accordance with the accounting policy of the Authority. However, the same value, amounting to Rs. 200,000 for other assets, Rs. 1,407,972 for receivables, and Rs. 1,433,947 for deposits and advances, has been adjusted to the accounts as impairment losses for more than five years.

Management Comments

In regard to the impairment losses, the current situation related to the impairment losses, as identified in the audit, will be assessed, and any necessary adjustments will be made in the future.

Recommendation

The Authority should act in accordance with the accounting policies.

1.5.3 Accounting Deficiencies

Audit Observation

- (a) To support small and medium-scale gem and jewelry businesses, the Authority rented 2 floors of the World Trade Center and leased them to 19 businesspersons to operate their shops. However, an amount of Rs. 2,989,815 owed by three

Management Comments

A case has been filed to recover the arrears from the shopkeepers mentioned here and according to the notice of the legal department; it has been informed that it is not possible to make a definite and reliable preconception about the amount and time that can be recovered. However, arrangements are being made to make the allocation for the money due from all the shop

Recommendation

Accounts should be prepared accurately.

shop owners until 2019 was not included in the Financial Statements.

owners (including the shop owners who have taken legal action) from the rental of shop rooms in the World Trade Center from the 2023 accounting year.

- (b) As of December 31, 2022, the balance of three deposits transacted in foreign currency owned by the Authority is USD 77,378.05. Due to the non-appreciation of the exchange value (Rs. 362) on that day, the value of cash and cash equivalents was understated by Rs. 11,650,248.
- It was recorded according to the exchange rates prevailing on the date of transaction. The closing balance was not accounted according to the year-end exchange rate.
- Accounts should be prepared accurately.

1.5.4 Lack of Audit Evidence

Non-compliance with reference to the relevant standard	Management Comments	Recommendation
(a) The contract retention balance as of December 31, 2022 was Rs.22,611,038 and the balance included a value of Rs.2,568,873 prior to January 01, 2009, but the information related to that value was not submitted to the audit.	After checking the account information of the years before 2009, information related to Rs.2,568,873 unrecognized 10% retention balance should be forwarded to the audit.	Records should be maintained properly.
(b) The authority has deposited Rs.22,090,642 in the court for an amount of Rs.22,306,195 payable on behalf of an estate company, and the money has been accounted for under sundry creditors and under sundry deposits respectively, but the related information was not submitted to the audit.	The information related to the amount of Rs.22,306,195 deposited in the court for the amount to be paid on behalf of an estate company will be submitted to the audit in the future.	- do -
(c) The amount of Rs.116,136,877 deposited with the authority till the settlement of the land disputes by the external parties has been accounted under deposits and advances, but the related information was not submitted to the audit.	Information related to land settlement has been recorded in the relevant ledger account 211613. Each regional office maintains records of related receipts and payments.	- do -

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Management Comments	Recommendation
The lease agreement between the Authority and the World Trade Center Company for providing shop rooms to small and medium	The lease agreement with Overseas Reality PLC for the Sri Lanka Gems and Jewellery Exchange at the World Trade Center was terminated on October 31, 2021. As per the	Arrangements should be made to recover the security deposit

scale gem and jewellery businessmen at the World Trade Center was terminated on October 31, 2021. Accordingly, the security deposit of Rs. 16,368,300 provided by the Authority between the year 2004 and 2018 had not been recovered by the date of audit, February 28, 2023.

terms, all the shops should have been handed over to this Institute, with clear proof, to release the security deposit of Rs. 16,368,300. However, by October 31, 2021, shop numbers 30, 36, and 47 had not been returned to the Authority by the respective shop owners. Legal action has been initiated for shop number 36, and the court has issued an order for the shop to be handed over and arrears to be paid. But, the shop owner has not yet complied with the court order.

immediately.

1.6.2 Payables

Audit Observation	Management Comments	Recommendation
<p>In accordance with Inland Revenue Department Circular No. SEC/2020/04, Sub No. (C) 2, withholding tax collected in a particular month should be remitted to the Inland Revenue Department before the 15th day of the following month. However, it has come to our attention that, despite the requirement, the withholding tax of 2.5 percent, which was levied on the auction money collected by the Authority till 30 November 2022 and amounted to Rs. 483,813,173, was not remitted until 31 December 2022.</p>	<p>While the 2.5% withholding tax payment has been made, there has been a delay due to the time required for document completion. In 2022, the Authority remitted Rs. 128.29 million to the Inland Revenue Department for this purpose. Steps will be taken to resolve this matter promptly.</p>	<p>Arrangements should be made to settle as per the circular instructions.</p>

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

Reference to Non-compliance Laws, Rules, Regulations etc.	Management Comments	Recommendation	
<p>(a) Financial Regulations Code 486 of the Democratic Socialist Republic of Sri Lanka</p>	<p>Despite the expectation that the value of the returned cheques, totaling Rs. 178,840, should be recovered promptly in cash, there has been a delay of over 9 years in making recoveries for 2 returned cheques.</p>	<p>It has been 9 years since these incidents occurred, and it is no longer feasible to pursue legal action. Out of the dishonored cheques totaling Rs. 178,840, Rs. 28,840 was received as an advance payment for a stall at the Jewels Exhibition held in 2010, and due to the dishonored cheques, the stall was not provided. The remaining cheque, amounting to Rs. 150,000, was a settlement obtained in</p>	<p>Actions should be taken in terms of the Financial Regulations.</p>

(b) Section 11 of the Finance Act No. 38 of 1971	Without obtaining the approval of the Finance Minister, Rs. 26,890,229 had been invested as fixed deposits.	connection with a raid, and disciplinary action had been taken against the officers who obtained the said cheque.	Approval for this has been received from the Treasury.	Action should be taken in terms of the act.
(c) Public Finance Circular No. 01/2012 dated 05 January 2012	While only construction work contracts are allowed to be awarded to Samurdhi Community Based Organizations/Samurdhi Regional Organizations, the authority to carry out gem projects had not been initially delegated to these societies. Nevertheless, the Authority entered into agreements with Samurdhi Community Based Organizations to undertake the works of four gem projects and authorized them to do so.	Samurdhi Community Based Organizations are the official societies that represent all low-income earners in their respective divisions. In line with previous low-income projects, this project also involves seven official Samurdhi Community-Based Organizations of the 2 divisions from both sides of the river, as confirmed by the respective Divisional Secretaries, acting as the licensing parties.		Actions should be taken in terms of the Circular.
(d) Public enterprise Circular No. 01/2021 dated 16 November 2021	Although the Financial Statements should have been submitted with a draft of the Annual Report within 60 days after end of the financial year, the Authority had not submitted a draft of the annual report with the set of financial statements.	Sinhala and English versions of the 2022 Annual Report have been prepared and it has been sent for Tamil translation. It will be submitted to audit in the future.		Action should be taken in terms of the circulars.
(e) National Gems and Jewellery Authority Act No. 50 of 1993				

(i) Section 14 (n)	Rs. 500 was charged during the issuance of gem mining licenses. This amount was meant to regulate and control the terms and conditions of employment for those in the gem and jewelry industry, particularly focusing on safety measures to protect lives and prevent bodily harm. It was credited to the gem mining welfare fund. As of the end of the year under review, the balance of this fund stood at Rs. 34,807,024, and the fund's intended purpose had not been fulfilled.	The primary objective of the authority is to reduce mining accidents. To achieve this goal, a safety manual has been introduced, and awareness programs for miners have been conducted. Additionally, steps have been taken to reduce mining accidents. In 2020, benefits related to mining accidents were significantly increased to avoid underutilization of this fund. Over the past three years, the following benefits have been provided.	Action should be taken in terms of the act.
(ii) Section 15 (1)	Because the National Gems and Jewellery Authority is the sole entity responsible for issuing licenses for the gem industry in Sri Lanka, even though the Attorney General's Department has notified that the primary regulatory authority related to the gem industry is directly involved in gem mining projects with third parties, contravening Section 15(i) of the Act, four such mining projects were executed during the year under review.	As per the recommendations given by the Attorney General's Department in letter No. E/17/19/NG&JA dated 04.06.2019, the authority has not directly engaged in gem mining projects and has issued licenses for gem mining to the second party. It is indicated that the Authority has entered into an agreement with the second and third parties regarding the proper supervision of the relevant project there and to take over the gem found in the project and to retain the Royalty from the gem sales income and release the remaining amount to the related licensed party.	Actions should be taken in terms of the Act.
(iii) Section 15 (2)	Methodologies had not been prepared to register and regulate the private laboratories which are running for testing and issuing certificates of gems.	The draft gazette related to the registration of gem laboratories was prepared and sent to the law draftsman on December 13, 2022, with the intention of proceeding with the necessary steps for legalization through the ministry.	Actions should be taken in terms of the Act.

(iv) Section 17 (1)	While it is a requirement that anyone conducting business in the jewelry industry must be registered with the relevant local authority, there was no proper regulation in place to confirm whether individuals engaged in the industry had indeed registered.	As per the Special Gazette Notification No. 1436/21 issued on 17.03.2006, in conjunction with the Assay Division, focusing on selected cities in Northern Province, North Central Province, Eastern Province, Southern Province, Central Province and Western Province Around 400 jewelry shops have been made aware of the sponsor's mark stamping in the year 2022.	Orders should be prepared and proper regulation should be made regarding the Annual Registration.
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2. Financial Review

2.1 Financial Results

The operating result of the reviewed year was a profit of Rs.328,232,606 and corresponding profit of the previous year was Rs.204,049,942. Accordingly, an increase of Rs. 124,182,664 was observed in the financial result. During the period, administrative expenses, personnel salary and income tax expenses had increased by Rs.174,110,491, but gem land auction and jewellery export service fees, license fees and interest income had increased by Rs.243,601,094 and affect to this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Despite obtaining approval for the National Gems and Jewellery Act No. 50 of 1993 in the year 1993, no timely amendments were made during the year under review.

Comments of the Management

After obtaining approval from the Board of Directors on this matter, the revised draft of the National Gems and Jewellery Act No. 50 of 1993, along with the necessary Cabinet Memorandum for obtaining the approval of the cabinet and relevant annexures, was submitted to the responsible ministry in both hard and soft copies on April 12, 2023.

Recommendation

The Act should be amended from time to time.

3.2 Operating Inefficiencies

Audit Observation

- (a) 510 Kg "Rough Sapphire Cluster" Gemstone as per invoice prepared by owner on 27 October 2021 at US dollars 10,000,000 ie Rs. 2,030,600,997 had been assessed. It was certified reasonable in price by

Comments of the Management

The 510kg "Rough Sapphire Cluster" gemstone was assessed at US dollar 10,000,000/= (10 million) on 27/10/2021 and sent to Gubilin Laboratory in Switzerland for testing and obtaining a report. This stone had been brought back

Recommendation

A formal method should be developed in the assessment of gemstones.

the director (an appraiser / gemologist) of the Authority and after 443 days, the gemstone was sent to Gablin Laboratory in Switzerland to get a certificate for evaluating the stones, 1 percent of the total shipping value of the invoice to be recovered as per clause 13.6 of the Special Gazette dated March 02, 2020. \$10,000,000 * 1% = 100,000 equal to Rs. 37,100,000 (USD 1 = Rs.371 as on January 13, 2023) had not been recovered from the licensee.

to Sri Lanka on 13/01/2023.

- This gemstone is considered an item of exhibition and museum value.
- The owner has reported that the stone had been sent for foreign certification where a nominal value has been recorded for insurance coverage.
- This gem stone was sent to get a certificate and was not brought back within the stipulated time, but the stone was not sold. Therefore, the said business entity is breaking down in charging a service fee of around 30 million rupees on an unsold item. Under Board Paper No. 2300, dated 08 April 2023, Board of Directors' approval has been obtained to report the facts to the Board of Directors and not to charge the due fees.

- (b) A special security deposit as Rs.4500, Rs.9000 for ordinary mines and from Rs.600,000 to Rs.5,000,000 for mechanized mines up to 3000-40,000 square feet had been recovered from the miners for backfilling and rehabilitation of gem mines excavated during issue of gem licences and it will be returned to them after the mine is rehabilitated. An amount of Rs.993,253,918 collected under that was not recovered by the miners and as a result, an audit could not be satisfied as to whether the gem mine pits were closed and the respective lands properly restored.

According to the gem license conditions granted by the Authority, the mining license will be closed within 02 months after the expiry of the mining license and deposit application will be made and if not, the deposit will be confiscated and added to the authority's revenue.

During the year under review, confiscation of Rs.8,980,350 million bail is mostly from Rs 4,500/- bail given in respect of conventional mines, and in many cases the license holders have closed the mine and prepared the land, but due to non-application of this bail, confiscation occurs. In the balance of Rs.993 million indicated by the audit, about 90% are the security deposits for operating mechanical mines, and since there is a special security deposit for mechanical mines, in many cases, at the end of the mining activities, the relevant mine has to be closed and the site prepared and the security money released.

Gem mine pits should be closed and the respective lands should be properly restored.

3.3 Underutilization of Funds

	Audit Observation	Management Comments	Recommendation
(a)	Rs.45 million was included in the action plan for the construction of Rathnapura Gem	Given the absence of a gem-related museum in Sri Lanka, a decision was	Efforts should be made to avoid

Museum and development of Nalanda Park, and although Rs.250,000 was paid and only a quality assurance report was prepared during the year under review, further work was stopped as the said expenditure became uneconomic.

made to construct a museum in conjunction with the Demuwawatha International Gems and Jewelry Trade Center, located in Rathnapura, a region abundant in gemstones. The initial concept paper for this project was prepared by the Director General of the Colombo National Museum Department. The designated building for the museum was an old structure owned by the Department of Archaeology, with a history of over 100 years. A status certificate report from the CECB was obtained at a cost of Rs. 250,000. However, the project was removed from the procurement plan for 2023 in compliance with the National Budget Circular No. 03/2022 issued by the Ministry of Finance. uneconomic expenses.

(b) The fines imposed by the Authority in unauthorized mining of gems and the proceeds from the auction of confiscated goods and claims and the fines prescribed by the court shall be credited to the gem rewards fund established without the approval of the treasury and other than the fines imposed by the court. 35 percent of the collected fines were given to the raiding team, 5 percent to the raiding office and 10 percent to all the employees of the authority, while the remaining 50 percent was credited to the authority's income. At the end of the year under review, the balance of this fund was Rs.45,226,589.

Information about the gem rewards fund account is submitted to the Treasury annually. The balance related to unclaimed fines from the fines imposed by the court is carried forward in this fund. Arrangements should be made to obtain Treasury approval and utilize the fund.

3.4 Procurement Management

Audit Observation

In the year 2016, the Authority had entered into an agreement with the software supply company to establish a software system for the use of the Authority at a cost of Rs.19 million, for which Rs.10,621,000 was paid. More than 06 years have passed since the procurement work started here but it was not completed.

Management Comments

The period has to be extended due to the failure of the relevant institution to complete the project in accordance with the work specification within the stipulated time. Accordingly, the service agreement has been extended until June 30, 2022 and then September 30, 2022 under the approval of the Board of Directors. By now, the date of completion of this project should be specified in consultation with the relevant institution, the agreement should be revised and a final agreement should be reached without repeatedly extending the project period.

Recommendation

Procurement procedures should be followed.