

## **National Gem and Jewellery Authority - 2024**

---

### **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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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 Scope

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 Authority'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 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;

- 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**

<b>Non-Compliance with the Reference to Particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Instead of retrospectively adjusting the accounts in accordance with paragraph 42 of Sri Lanka Accounting Standard No. 08 when correcting the error of not recognizing the rent income of Rs.8,922,419 due from shop owners who had rented stalls at the World Trade Center obtained by the Authority for the previous year, the amount was recorded as income in the year under review. As a result, the profit for the year under review was overstated by that amount.	Due to the difficulty in accurately calculating the balances receivable from three shop owners against whom legal action has been filed as at the balance sheet date, those balances were not recognized in 2023. However, adjustments have been made in the current financial year as a correction of accounting errors in accordance with Sri Lanka Accounting Standard No. 08, for the year ended 31 December 2024.	Receivable income should be properly recognized and adjusted in accordance with accounting standards.
(b) When renting out 14 shops in the Gem Tower building constructed by the Authority, the initial bid value of Rs.84,565,500 collected should have been apportioned over the period during which the economic benefits are received, in accordance with Sri Lanka Accounting Standard No. 08. However, since it was not recognized in that manner and	The bid value of Rs.84,565,500 charged at once for the 14 shops represents a non-refundable bid income received in a lump sum under the terms of the agreements. Since, according to the agreements, monthly rental income is charged separately and accounted for under Sri Lanka Accounting Standard No. 18, this amount has been recognized as	Income for the year and income received in advance should be properly recognized and accounted for in accordance with Accounting Standard 08.

was instead recorded as income in the year under review, the income for the year had been overstated by Rs.82,655,755.

income pertaining to the relevant period.

- (c) In accordance with paragraphs 51 and 79 of Sri Lanka Accounting Standard No. 16, the gross carrying amount of assets that were fully depreciated but still in use, amounting to Rs.127,000,741, had been identified. However, the necessary adjustments had not been made in the accounts.
- Fully depreciated and revalued non-current assets will be disclosed in accordance with paragraph 79(a) of Sri Lanka Accounting Standard No. 16.
- In accordance with Accounting Standard 16, the gross carrying amount of fully depreciated but still utilized assets should be identified and reflected in the relevant adjustment in accounts.
- (d) A sum of Rs.7,700,000 had been disclosed in the financial statements as at 31 December 2022, as compensation payable in respect of 05 cases filed by external parties against the Authority, although the factors mentioned in paragraph 14 of Sri Lanka Accounting Standards No. 37 had not been met. Due to the failure to correct these estimation errors in the year under review, the retained earnings as at 31 December 2024 had been understated by Rs.7,700,000. Furthermore, the Authority's legal officer had confirmed that there was a sum of Rs.1,029,764,412 is expected to be paid as compensation in respect of 06 cases filed against the Authority by external parties. However, that information had not been disclosed in the financial statements.
- Based on the existence of a present obligation for payment as a result of a past process as of 31 December 2024 in accordance with Sri Lanka Accounting Standard No. 37, provisions for accrued expenses amounting to Rs.7,700,000 have been made as per the confirmation letter received from the Authority's Legal Division that there is a risk of compensation for the 5 unresolved cases.
- Provisions should be made for contingent liabilities that require provisioning in accordance with Accounting Standards 37, and other contingent liabilities should be identified and the necessary information should be disclosed.
- Disclosures regarding contingent liabilities under Note 37 in the financial statements have been made.
- (e) Due to construction carried out by a private company adjacent to the main office building, a portion of the Authority's premises collapsed on 16 July 2021. The resulting damage was valued at Rs.100
- When preparing the financial statements for the year ended 31 December 2024, no disclosure was made, because the Legal Division had not provided sufficient written evidence
- In accordance with Accounting Standard 37, information relating to identified contingent liabilities should be disclosed.

million, and the Authority filed a lawsuit against the relevant company in the Colombo District Court to recover this amount. However, in relation to this matter, no disclosure was made in the financial statements in accordance with paragraph 34 of Sri Lanka Accounting Standard No. 37.

- (f) Although, in accordance with paragraph 58 of Sri Lanka Public Sector Accounting Standard No. 39, an assessment should be made in each accounting period to determine whether assets have been impaired, such assessments had not been carried out. Instead, impairment losses for other assets, receivables, deposits and advances amounting annually to Rs.200,000, Rs.1,407,972, and Rs.1,433,947 respectively had been adjusted in the accounts for a period exceeding five years.
- Although impairment losses related to these assets had been recognized when the Sri Lanka Accounting Standards were revised to align with International Accounting Standards, they had not been estimated on an annual basis.
- According to the standard, assets should be assessed for impairment in each accounting period and recorded in accounts accordingly .
- (g) The Gem Tower was built by the Authority at a cost of Rs.420,285,840. The building had 27 shops on 03 floors on a thirty-year lease basis and a restaurant on rent. Accordingly, the value of the building had been shown as a building under property, plant and equipment instead of being reported as an investment property in accordance with Sri Lanka Accounting Standards No. 40.
- Instructions have been given to the Director (Finance) for correction.
- According to Standard No. 40, the value of the building should be reported as an investment property.

## 1.5.2 Accounting deficiencies

Audit Observation	Management Comments	Recommendation
(a) When accounting for interest income from fixed deposits, the income had been recognized after deducting withholding tax of Rs.3,718,340 charged on the interest. Furthermore, although the interest income relating to the fixed deposits and Treasury bills for the year under review amounted to Rs.487,885,070, only Rs.397,810,120 had been recorded in the financial statements making an understatement of Rs.90,074,950. In addition, the related interest receivable had also been understated by Rs. 1,917,264.	This difference is due to the fact that the audit calculated the interest income receivable based on the number of days indicated in the bank statement. In future, the interest income receivable will be calculated by considering the relevant dates of both balance confirmations and interest income bank statements.	Interest income should be calculated accurately and accounted for based on renewal notices and other supporting documents.
(b) The Authority had not specifically identified the expenses to be paid for the exhibitions held during the reporting year as liabilities, but had made a provision of Rs. 4 million for those expenses and included them in accrued expenses.	Due to the lack of source documents to specifically identify the expenses to be paid for the exhibitions held and the lack of Board of Directors' approval to make payments, an allocation of Rs.4 million was made, considering it as a contingent liability.	Expenditure should be incurred with the proper approval of the Board of Directors, and supporting source documents should be maintained for that purpose.
(c) During the year under review, four expense invoices amounting to Rs.8,042,333 relating to the International Gem and Jewellery Exhibition held in Ratnapura had been omitted from the expenses of the year under review. As a result, the profit for the year under review had been overstated by that amount.	As the bills for additional work performed by the Official Events Company had not been submitted to the Accounting Division under the approval of the Board of Directors as of 31 December 2024, this expense was not recognized as an accrued expense.	All expenditure relevant to the year should be accurately accounted for in the financial statements.
(d) The amount of Rs.70,922,416 payable to the prize winners for the raid had been shown as Gem Awards Fund under equity in the	Since there is a balance available within the main fund of the Authority, the Gem Awards Fund amounting to Rs.70,922,416 has	Only amounts that represent the interest of the owners should be shown under

Statement of Financial Position, instead of being presented as a liability in the financial statements. been recognized as equity in the financial statements. It has been accounted for as equity until it is identified by the Treasury as a statutory fund. equity. Therefore, items that should be presented as liabilities in the financial statements should not be reported under equity.

- (e) The VAT payable for the period from 01 October to 31 December of the year under review amounting to Rs.5,287,497 had been paid on 20 January 2025 and the amount of Rs.1,592,752 had been shown as VAT payable at the end of 2024. As a result, a difference of Rs.3,694,745 was observed. According to the directive issued by the Tax Advisory Committee of the Department of Inland Revenue on 17 January 2024, the VAT amount of Rs.3,673,486 accumulated in arrears for the period prior to 31 December 2009 had been debited to the VAT ledger account when making tax payments. However, since the corresponding adjustment had not been made in the VAT control account, the above difference of Rs.3,694,745 had arisen. The VAT ledger account will be corrected when settling VAT in the year 2025. VAT payable should be properly accounted for.

### 1.5.3 Lack of written evidence for Audit

Audit Observation	Management Comments	Recommendation
The schedules for the balances of Rs. 2,568,873, Rs. 144,099,070, Rs. 4,555,139 and Rs. 105,842 relating to the items of 10 percent withholding tax, land share deposits and advances, deposits and advances received, respectively, were not submitted for audit.	Since the withholding tax balance is an old balance, and the Authority does not have sufficient information regarding it, and because no claims have been made for it even after 15 years, action will be taken to write it off based on Board approval in the future. The balances related to land lease deposits maintained separately by the regional offices of the Authority can be obtained through an examination of those records. A deposit register is maintained for	Accounts should be maintained with accurate values by comparing documents and ledger accounts. Meanwhile, those supporting documents should be submitted for audit.

security deposits and rental deposits at the World Trade Center and it will be reconciled with the ledger account and corrected accordingly.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Management Comments	Recommendation
<p>Although the lease agreement between the Authority and the World Trade Center Company for providing shop spaces to gem and jewelry businesses had been terminated on 31 October 2021, the Authority had not recovered the security deposit of Rs. 4,314,837 paid to the company from time to time during the period 2004 - 2018.</p>	<p>Legal action will be taken in 2025 to recover the rental value from shop owners whose security deposits have been reduced.</p>	<p>Steps should be taken to recover the security deposit balance promptly.</p>

### 1.6.2 Payables

Audit Observation	Management Comments	Recommendation
<p>(a) Out of the miscellaneous creditor balance of Rs. 353,379,225 as at 31 December 2024, an amount of Rs.186,760,140 that had remained outstanding for more than four years, and a 10 percent retention balance of Rs. 2,568,872 relating to the period prior to 2009, had continued without being cleared.</p>	<p>Within the balance of Rs. 186,760,140 that has remained outstanding for more than four years under various creditors, there is an amount payable to the Land Reforms Commission arising from land auctions. Since a court case regarding this matter is currently being heard, it has been shown under creditors until a judgment is delivered. With respect to the outstanding 10% retention balance of Rs. 2,568,872, action will be taken in the future in accordance with the decision of the Board of Directors.</p>	<p>Action should be taken to settle outstanding balances early.</p>

- |     |  |   |   |
|-----|--|---|---|
| (b) | Within the value of Rs. 11,168,580 under tender deposits recorded in deposits and advances received, there were 130 deposits amounting to Rs. 1,842,675 that had remained for more than 10 years, for which detailed information on the deposits had not been properly reported. | This includes unclaimed tender deposits that have been held since 2008 and have not been able to be released to date due to insufficient information. | Balances related to deposits payable should be investigated and promptly settled, or balances for which information is unavailable should be taken to income. |
|-----|--|---|---|

**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 Gems and Jewellery Authority Act No. 50 of 1993			
(i) Section 14(1)(e)	Although the Authority should act to prevent illegal gem mining and the unlawful removal of gemstones from Sri Lanka, during 38 raids carried out in 2024 by the Monaragala Regional Office of the Authority, activities such as transporting excavated soil using tipper trucks without obtaining permits, unauthorized mining on state lands, and mining in a manner that damages river reservations had taken place. Furthermore, in 46 instances, license conditions had been violated. However, apart from imposing fines, the Authority had not taken other legal measures to prevent environmentally harmful and high-risk illegal mining and gem extraction activities.	Due to the nature of this industry established in Sri Lanka, unauthorized excavations/mining occur frequently and it is difficult to stop it completely. However, taking action against such offenders in accordance with the compounding powers vested in the Authority act is the nature of the routine procedure that is followed.	Action should be taken to prevent illegal gem mining in accordance with the provisions of the Act.

(ii) Section 15(1)	<p>Although the Attorney General's Department had informed on 25 March 2019, that the direct involvement of the main regulatory authority related to gem industry in gem-mining projects with a third party is contrary to Section 15(1) of the Act, no final decision had been taken regarding the continuation of such gem-mining projects.</p>	<p>The Attorney General's Department has presented various opinions on several occasions regarding the entry into agreements with third parties in the gem industry, i.e. engagement in gem mining projects, and according to the Attorney General's instructions dated February 2024, it has been stated that if the Authority is not directly involved in the gem mining process, there is no obstacle to entering into agreements with third parties regarding the collection of royalties from the gems obtained.</p> <p>A court case bearing number CA (Writ) 694/2023 is currently in progress regarding the above matter, and the Ministry has also been informed to withdraw the above-mentioned legal opinion.</p> <p>Accordingly, at present, no transfer of gem mining rights will be made outside of auction and the projects that have been implemented have also been completed.</p>	<p>Actions should be taken to ensure that gem-mining projects are not carried out in terms of the provisions of the Act.</p>
(iii) Section 15(2)	<p>No mechanisms had been developed to register and regulate private laboratories operating for gem testing and</p>	<p>The criteria for classifying private laboratories were referred to the Legal Division on</p>	<p>Steps should be taken to register private laboratories operating for gem</p>

issuing certificates.

May 30, 2025. Expert testing and issuing opinions on the relevant certificates in subject matter and the accordance with the views of the heads of provisions of the divisions regarding the Act. above mentioned criteria for classification, will be considered, and the final draft is planned to be submitted early.

(iv) Section 20(1)

Although it was stated that all money and donations received by the Authority should be credited to the Authority's fund and that the payment of prizes should be made using that fund, three funds had been established: a fund called the Prize Fund to credit the money received during the auction of bids and the fines imposed by the Authority, a fund called the Gem Mining Welfare Fund to regularize the safety measures to be taken to protect the lives and physical safety of those engaged in the gem and jewellery industry, and a fund called the Jewellery Development Fund for the technical development of jewellery manufacturers. Although if a fund is maintained in addition to the main fund, it should be proceeded with the approval of the Treasury, as of 31 December 2024, the Prize Fund had a balance of Rs.70,922,416, the Gem Mining Welfare Fund had a balance of Rs.40,741,334 and the Jewellery Development

The allocation for the payment of prize money maintained by the Authority and the allocation made for the welfare of miners are not funds, therefore no approval has been obtained from the Treasury. The Jewellery Development Fund is maintained under the approval of the Treasury as per a budget proposal in 2006.

Funds received in accordance with the provisions of the Act should be credited to the Authority's fund. If the funds are maintained, approval from the Treasury should be obtained.

Fund had a balance of Rs.101,455,508, without such approval .

- |     |   |  |   |  |
|-----|---|--|---|--|
| (b) | Section 86 of the Inland Revenue Act No. 24 of 2017 and Paragraph No. 06 of the Withholding Tax and Advance Tax Deduction Circular issued to the Withholding Agents by the Commissioner of Inland Revenue No. SEC/ 2022/ E/ 03 and dated 23 December 2022 | i. The withholding tax collected by each withholding agent should be remitted to the Commissioner General of Inland Revenue within 15 days of the end of each calendar month. However, a sum of Rs.513,495,637 collected for the year under review and a sum of Rs.491,428,327 collected prior to the year 2024 had not been remitted to the Commissioner General of Inland Revenue. | Arrangements have been made to expedite payments after completing the documentation related to the 2.5% withholding tax and confirming the receipts by reconciling them with the ledger. The delay in properly confirming these receipts was due to a shortage of staff in the Accounts Division. Steps will be taken in the future to ensure that tax payments are made early. | Arrangements should be made to remit withholding taxes in accordance with the Inland Revenue Act. A proper investigation should be conducted to determine whether there is negligence in this regard . |
|     |   | ii. Every withholding agent is required to submit the annual withholding tax declaration to the Department of Inland Revenue within one month (30 days) after the end of the tax year that is, on or before 30 April. However, this requirement had not been fulfilled.  | The annual withholding tax declaration has been submitted to the Inland Revenue Department on 05 May 2025.  | According to the Inland Revenue Act, the annual withholding tax declaration must be submitted to the Department of Inland Revenue within one month after the end of the tax year.                      |
| (c) | Internal Circular No. NGJA/16.2/2018/Bachoe III dated 29 August 2018  | The land should be restored after gem mining, otherwise the Authority should close and restore the risky mine pits that have been abandoned in a dangerous and environmentally harmful manner within 02 months of the cancellation of the license. The Authority had   | A field inspection report has been obtained by a committee of three officers through letter NGJA/17.1/COPE/23/24 regarding the handling of mines older than 10 years. According to the report, since there is a natural ecological system   | As per the circular, gem mines should be closed and the relevant lands should be properly restored.  |
|     | (i) Paragraph 07  |  |   |  |

received a deposit for the restoration of these mine pits and at the end of the year under review there was a balance of Rs. 1,760,351,594 in the deposit account. However, the Authority had not properly regulated whether the gem mine pits were closed and the relevant lands were properly restored, nor had the Authority taken any steps with a formal plan for the restoration of the mine pits. As revealed by a sample inspection, 16 mine pits had not been closed as of May 2025 and these mine pits were lands that were used for various purposes (sand/soil mining) in addition to gem mining about 10 years ago, and the Authority also did not have details of the specific persons who obtained the licenses.

in this area that has developed over many years, it has been recommended that it is advisable to conduct a proper environmental assessment and preserve that ecological system as it is or close the pits or use them for other beneficial purposes.

(ii) Paragraphs 04 and 05

Although the document indicating the market value of gems and jewellery should be updated on the first working day of every 03 months and published on the website of the Authority, this had not been done. As a result, it had not been possible to check the stocks of gems and jewellery and compare them with the market value and to follow the steps to be followed when the invoice value differs from the market value as mentioned in paragraphs 6, 7, 8, 9, 10 of the circular.

A document indicating the market value of gemstones has been displayed on the website of the Authority, but it has not been updated quarterly. Since the relevant circular for taking legal action should be published through a gazette notification, action has not been taken in accordance with sections 6,7,8,9,10 of the circular.

A document indicating the market value, as per the circular, should be published and updated on the website.

(iii) Paragraph 07(i)	The Revenue Authority had lost the service fees related to the increased invoice value due to the fact that gem exporters were allowed to export without making changes between the invoice value and the assessed value by up to 30 percent. In a context where exporters tend to remit only the invoice value as income from exports rather than the actual sales value of the gems, the failure to amend the invoice value of high value exports based on the above approval resulted in a decrease in the amount of foreign exchange remitted into the country.	Since there is no fixed price for gems internationally, a price adjustment of approximately 70 percent is taken into account and a fluctuation of 30 percent is allowed. However, it is planned to reconsider this in the future and revise this percentage to the market price. Accordingly, this internal circular is to be updated.	The internal circular should be amended as necessary.
-----------------------	---	--	---

**2. Financial review**

**2.1 Financial results**

The operating result for the year under review was a profit of Rs.607,576,727 and the corresponding profit for the preceding year was Rs.995,430,030. Accordingly, a deterioration of Rs.387,853,303 was observed in the financial result. Decrease in the total value of revenue and net financial income by Rs.443,099,018 and an increase in administrative expenses, personnel salaries and promotional expenses by Rs.55,563,372 compared to an increase in other income by Rs.110,809,088 had been mainly caused for this decline.

**3. Operational review**

**3.1 Management Inefficiencies**

Audit Observation	Management Comment	Recommendation
(a) After the approval of the National Gem and Jewellery Authority Act No. 50 of 1993 in 1993, no steps had been taken in the year under review to amend it in a timely manner.	As per Cabinet decision No. CM/23/1392/617/029 and dated 15 August 2023, it was informed that there was no need to amend Act No. 50 of 1993, therefore, Cabinet approval has been sought to amend the said Act again.	Steps should be taken to amend the Act in a timely manner.

- (b) During the three years 2022, 2023, and 2024, gemstones weighing 46,815.94 kilograms valued at Rs.2,091,693,980 had been imported through Sri Lanka Customs. In relation to these imports, a Social Security Levy of Rs.15,614,849 and a Value Added Tax of Rs.38,616,009 had been charged in 2024. During these three years, only 1,664.06 kilograms of gemstones valued at Rs.22,523,409 had been re-exported through the Authority after adding a value of Rs.10,723,623. The institution did not possess information relating to the total gemstone imports during the year under review and the preceding years, nor a regulatory mechanism regarding such imports had been established and implemented.
- It is planned to sign a Memorandum of Understanding with the Department of Sri Lanka Customs as the Authority should obtain information to regulate this industry.
- A regulatory framework should be developed for imported gems with the Department of Sri Lanka Customs and measures should be taken to encourage value addition and re-export.
- (c) Two FTIR machines, costing a total of Rs. 16,379,110, were purchased for the Ratnapura office and the Head Office in 2013 and 2020 to identify whether gemstones had been subjected to heating or not. However, from the date of purchase up to March 2025, only about seven certificates had been issued using these machines. As per the procurement agreement for the machine purchased in 2020 overseas training for two officers, to be provided by the manufacturer, had not been received even after five years. Service agreements for the machines had also not been entered into. At present, due to the lack of trained personnel to operate the machines properly and the absence of data files, the machines have not been functioning at optimal efficiency.
- Although both FTIR machines purchased in 2020 and 2013 for the Colombo Head Office and the Ratnapura Gem Laboratory respectively have now been brought into operational condition, the FTIR machine at the Colombo Head Office is currently not used for issuing certificates due to an insufficient database and inadequate training. The Gem and Jewellery Research and Training Institute is providing assistance to train the staff required to operate the FTIR machine installed in Ratnapura, and the necessary arrangements in this regard are currently underway.
- Assets should be maintained in proper working condition and used for operational purposes.
- (d) As of 15 March 2024, the six Lesser Marking machines used by the Authority for analyzing and stamping precious metals had become inactive, and
- One SISMA EASY 100 device purchased in 2015 became inactive in 2018, and the other SISMA EASY 100 device
- Assets should be maintained in proper working condition and used

therefore only manual hallmarking has been carried out since that date. As of the audit date, 28 May 2025, those machines could not be repaired. Although the useful lifetime of these six machines, which cost Rs. 52,540,888, had not expired, no agreements had been entered into regarding repairs and servicing, and due to this reason, the machines had to be kept inactive without being used. Furthermore, although four years have passed since the foreign training for two officers, which the manufacturing company agreed to provide under the procurement agreement for the two Lesser Marking machines purchased in 2020, arrangements had not been made for the Authority's officers to receive that training. Instead, the training cost of Rs. 900,000 included in the invoice for the purchase of the relevant machine was re-charged on 27 February 2025.

became inactive on 28 October 2022. The two 200F devices purchased in 2015 became inactive at the end of 2023. The two machines purchased in 2021 developed certain defects in February 2024 and March 2024, and laser generation became inactive. On these occasions, the local agent institution contacted the parent company through an online system and made several attempts to repair them, but these attempts were unsuccessful.

Since repairing these machines would be a high-cost task, approval was obtained from the Board of Directors to purchase three new laser machines manufactured in China or India at a lower cost. Accordingly, procurement activities have commenced.

Since 15 March 2024, this stamping service has been continuously carried out without the use of machines (hand marking).

(e) Out of the 27 shops proposed to be given on a 30-year lease basis in the Gem Tower building constructed by the Authority to establish an international gem trading center, only 14 shops had been leased, while the remaining 13 shops and the restaurant had been underutilized for a year. In respect of 05 shops that had been given on a lease basis as of 31 December 2024, a total of Rs. 2,179,890 was outstanding in rent. As a result, one shop room had been

Although quotations have been called three times for the restaurant established in the Gem Tower, no buyers have come forward. With the approval of the Board of Directors, 10 shop rooms previously allocated for foreigners were also offered for local sale, and on 7 May 2025 tenders were called for 13 shop rooms. However, only one shop

for operational purposes.

Shops built for business purposes should be leased out in a way that allows them to generate adequate income as planned, and underutilization of the shops should be prevented.

handed over to the Authority and 04 shops were scheduled to be sealed. When auctioning 04 shops that had been given on lease basis due to the fact that it took about 8 months to enter into a contract after the payment was made and reservation was done, the Authority had lost an income of Rs.1,250,000 that could have been earned by 31 December 2024 .

room was sold. Approval has been granted by the Board of Directors to re-tender shop No. 02 and to recover the arrears of shop No. 02, and to take steps to seal and recover arrears for shops No. 04, 09, 13, and 21 in accordance with the agreements. It has also been decided to take legal action to recover arrears from shop rooms that have not paid rent as per the agreements.

(f) The Authority prepared an appropriate mechanism and an estimate of Rs. 5,757,000 to prevent unauthorized gem mining in gem-bearing areas and to legally extract gems and spent Rs.750,000 in 2021 to carry out an exploratory pilot mining project in the land area that would be submerged by the Kumbukkan Oya-related reservoir. About 600 carats of gems were found during this process, but further activities were halted due to not having obtained approval from the Irrigation Department. Based on the data from the explorations conducted by the Authority, which indicated a potential gem availability of approximately Rs. 10 billion, the Authority again requested approval for the project from the Irrigation Department on 19 April 2024. However, no response has been received, and unauthorized mining is still taking place on the land.

The land area designated to be submerged for the proposed Monaragala Kumbukkan Oya reservoir project is a region where licensed mining operations had been functioning, and unauthorized gem mining especially along the Kumbukkan Oya has also been widespread. Gem-bearing areas have been identified here, and locations containing secondary gem deposits, from which gems can be extracted through minimal-impact mining, have also been identified. However, due to the lack of approval from the Irrigation Department, further action regarding the extraction of these resources has been hindered.

A suitable procedure should be formulated at the Ministry level through discussions in order to legally extract the gems.

### 3.2 Operational inefficiencies

Audit Observation	Management comment	Recommendation
(a) When issuing gem mining licenses, a special security deposit is charged from miners for refilling and rehabilitating the	By checking the deposit records maintained at the regional offices, the balance of Rs.	A formal procedure should be established to close

excavated gem pits amounting to Rs. 4,500 and Rs. 9,000 respectively and for mechanized mines amounting from Rs. 600,000 to Rs. 5,000,000 for areas ranging from 3,000–40,000 square feet. After the pits are rehabilitated, these deposits are returned to them. As at 31 December 2024, an amount of Rs. 1,760,351,594 had accumulated in the pit-deposit account in this manner, but a schedule relating to these deposits had not been submitted for audit, and therefore its accuracy could not be verified.

- (b) During the document inspection, it was observed that since mining license can be easily obtained from the Gem and Jewellery Authority, those who have been engaged in sand mining for a long time do not apply for sand mining permits from the Geological Survey and Mines Bureau, but instead use the Gem and Jewellery Authority's mining permit to conduct sand mining and only apply for the necessary transportation permit to remove the sand from the Geological Survey and Mines Bureau through the Authority. Was. In the sample testing, the mine owner, license number GML1020817, had collected about 2,500 cubes of sand as a by-product of mining and tailings washing by 31 July 2024, and had sought approval from the Authority to remove the sand, but the approval of the Geology and Mines Bureau had not been received until 10 January 2025, the date of the audit.
- The Bureau of Geology and Mines and our authority have discussed and formulated the relevant criteria to resolve the existing problems related to the legal removal of sand produced as a by-product of the gem industry, without hindering the closure of mines. Steps have been taken to minimize the existing problems.
- It should be ensured that activities are carried out in compliance with the conditions of the license under duly established criteria, and that sand removal is carried out in a lawful manner, and that proper management is exercised to enable this.

### 3.3 Underutilization of funds

Audit Observation	Management comment	Recommendation
(a) The land of 39.84 perches obtained from the National Housing Development Authority in 2016 at a cost of Rs. 2,444,580 to construct a holiday resort in the Kataragama area for the welfare of the Authority's officers had not been used for the intended purpose and had remained idle for more than 9 years. Although both parties were aware that the land was affected by unauthorized occupants, the Authority had proceeded with the purchase of the land, and no legal action had been taken to remove the unauthorized occupants.	As per the instructions given by the officers of the Attorney General's Department, the documents requested for legal action against the unauthorized occupants have been submitted to the Attorney General's Department.	Action should be taken against the officers responsible who failed to remove the unauthorized occupants before purchasing the land and then proceed with the purchase. The land purchased should be utilized for its intended purpose.
(b) By the end of the year under review, the Belideniya land valued at Rs. 889,000 and the building valued at Rs. 5,358,507 had remained idle and deteriorating for more than 12 years without being put to any use. Although Rs. 3,147,501 had been spent in 2008 to renovate the Belideniya building, out of the approximately 194 months from the year the expenditure was incurred up to 31 December 2024, the building had been used for some purpose for only about 20 months, while for about 170 months it had not been used for any purpose. As a result, the renovation expenditure had become an unproductive cost.	This building had been used by the Gem Corporation for jewellery production, and since jewellery production was not a function of the Authority, this center became inactive. With a purpose of preventing it from continuing to remain idle, the building and the land will be handed back to the Divisional Secretary of Dickwella.	Steps should be taken to utilize the land for a productive purpose so that unproductive expenditure does not arise.
(c) With the objective of establishing a fully equipped gem laboratory in Sri Lanka, in addition to the 0.25% export service fee charged by the Authority based on the value of gem exports, a further 0.25% export service fee was collected from exporters from January	Since this company is a private company established under the Companies Act, provisions are not made under the National Gem and Jewellery Authority Act No. 50 of 1993 for officers of the National Gem and	A procedure should promptly be prepared either to utilize the funds remaining in the company's accounts effectively through the

2001. Based on an agreement between the Authority and the Sri Lanka Gem and Jewellery Association, a private limited company named Lanka Gemological Laboratory was established on 29 May 2008. According to Cabinet approval dated 28 January 2009, an amount of Rs. 92,498,578 accumulated in the Laboratory Development Fund collected as above was credited to the above company's account on 27 April 2009. Although 16 years had passed from the establishment of the company up to 31 December 2024, the company had failed to achieve its objective of establishing the laboratory. Cabinet approval was granted on 24 August 2016 to transfer back to the Authority the amount of Rs. 92,498,578 credited to the company's account together with the interest thereon, and to establish a proposed internationally recognized advanced gemological laboratory under the Authority using those funds. However, even after 8 years, action had not been taken in accordance with the Cabinet decision.

From 2014/2015 up to the year under review, the company had not prepared and submitted financial statements for audit. As confirmed by the Bank of Ceylon, as at 31 December 2024, the company's fixed deposit had a balance of Rs. 251,134,797, and a balance of Rs. 25,841,283 in current account remained idle.

Jewellery Authority to function in their official capacity as its directors. Therefore, this company has not been in operation, and the funds invested therein have been underutilized. A Cabinet decision dated 24 August 2016 has been obtained to transfer these funds to the Authority and to establish an institution under the National Gem and Jewellery Authority Act to bring it to the level of internationally recognized laboratories. Accordingly, as it is necessary to dissolve this company in order to obtain the relevant funds for the Authority, the recommendation of the Attorney General's Department in this regard has been referred to the Authority under letter No. E/142/23/NG & JA dated 22 April 2024. Through that recommendation, instructions have been given to consider a voluntary liquidation by the shareholders without appointing directors, in accordance with the provisions made under from Sections 325 to 332 of the Companies Act No. 07 of 2007. Accordingly, for the dissolution of this company, a meeting was held on 07 April 2025 under the leadership of the subject Minister, with the participation of representatives of the Sri Lanka Gem Association and officials of the Authority, and at that meeting it was decided to dissolve the company and to establish a new company with amendments. Since, at present,

establishment of a gem laboratory and maintaining the company in accordance with compliance, or to proceed with dissolving the company.

the activities of the company are not at an operational level, the financial statements have not been prepared.

- (d) Two gem mining projects initiated by the Authority were temporarily suspended during the year under review. Meanwhile, an expenditure of Rs.1,795,172 had been incurred for those projects.
- The Board of Directors has decided to withdraw the projects from the project site in May 2025 due to the lack of clear instructions received from the Attorney General regarding the further implementation of the Kalu Ganga diversion project. It is also planned to control any future illegal gem mining through raids and the necessary legal provisions are being prepared to dispose of the relevant portion of the river through public auction .
- As a regulatory institution, gem mining should not be carried out, and it should be ensured that unnecessary expenses do not occur.

### 3.4 Procurement Management

Audit Observation	Management comment	Recommendation
<p>The Authority had entered into an agreement with a software supplier in 2016 for a period of 11 months to install a software system for the use of the institution at a cost of Rs.19 million and had paid Rs. 10,925,000 by the year 2024. However, even though 08 years had passed since the procurement activities were carried out, the installation of the software system had not been successfully completed by 31 December 2024.</p>	<p>The software development institution had failed to complete and finalize the full modules related to the basic specifications. Although a further period of 9 months was granted, giving the institution an opportunity to develop the remaining undeveloped modules, the computer system was not developed in accordance with the specifications within that time. Therefore, based on the approval of the Board of Directors obtained on 06 February 2025, the institution was notified in writing and steps were taken to terminate</p>	<p>Procurement activities should be carried out systematically according to the prescribed procedures, and the selected institution should act without delay to develop and complete the software system.</p>

the agreement. Procurement activities have now commenced, under the approval of the Board of Directors dated 25 March 2025, to select a new institution to maintain and develop this software system.