

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year 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 Finance 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 financial statements give a true and fair view of the financial position of the Authority as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on 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 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, 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 Responsibility of Auditor regarding the Audit of 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 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 Internal Control over the preparation of financial statements

Authority is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The cost of 26 motor vehicles and a motor bike of the Authority amounted to Rs.108,582,088 had been zero. Out of that, 21 vehicles and the motor bike had been revaluated for Rs.75,890,000 during the year under review and, 05 vehicles costing Rs.12,505,536 had not been revalued. Accordingly, as per Sri Lanka Accounting Standard 16, whole class of vehicles had not been revalued and it was only stated as a note in the accounts.	According to the Paragraph 29 of Sri Lanka Accounting Standard 16, authority is following the policy of indicating the assets at cost. But, as shown in the 2017 Audit Report, it was shown that value of all motor vehicles should be revalued to show the revaluation of an asset category belonging to a class totally. Accordingly, though vehicles were revalued by Valuation Department for years of 2019 and 2020, it was unable to revalue whole class. Thus, the vehicles that revalued in year 2020 and the numbers of vehicles that were unable to do so had been disclosed through notes in the accounts report.	Action should be done as per Accounting Standard.

- (b) According to the Sri Lanka Accounting Standard 07, as dividend income receivable from GSMB Technological Services (Pvt) Limited of Rs.500,000 on 06 April 2021 was stated under investment activities in cash flow statement as a cash outflow in the year under review instead of presenting actual cash flow, the cash outflows of the cash flow statement had been over stated by that amount.
- The dividend income of -Do- Rs.500,000 had been stated as dividend received as an investment activity. Actions will be taken to make adjustments under income receivable.

1.5.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
According to the accounting policy of the Authority, when identifying the impairment losses related to the assets, though the impairment loss value that should be provisioned should be estimated annually by reviewing those assets, it had been adjusted to accounts from year 2018 to 2020 for other assets, receivables and deposits in same amount of Rs.200,000, Rs.1,407,972 and Rs.1,433,947 respectively as impairment losses.	Though the impairment losses had been estimated annually, as there were no responses for the request made from each divisions regarding information for new provisions of impairment losses after 2018, provisions previously done had been shown as it was.	Actions should be taken in accordance with accounting policies.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivable

Audit Observation	Comment on Management	Recommendation
(a) 19 sealed gem parcels which have been in the custody of the Sri Lanka Customs for about 3 decades and have been stored in the safe of the Authority were handed over to the Sri Lanka Customs on 09th February 2021 and, it had not been charged the daily charge of Rs. 50 per parcel for keeping it safe with the Authority for many years.	Gem stones parcels that owned to Sri Lanka Customs and has been deposited for long years in the safe of exports division (as per registers descended from before in exports division) had been handed over to Sri Lanka Customs Gem Unit properly by examining gem stones by a	Action should be taken to recover fees as per prevailing rules and regulations of the Authority.

committee appointed by Director General on 09 February 2021. Also, although these gems have been kept in the safe of the Authority for many years, no charges have been levied in this regard.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments on Management	Recommendation
(a) Section 11 of Finance Act No. 38 of 1971	It has been invested in treasury bills and fixed deposits of Rs.1,059,635,760 and Rs.836,057,461 respectively without Finance Minister's approval.	Agreed with the audit observations. Interest income that received from the investments in treasury bills and fixed deposits was added to those investment accounts. These investments are made temporarily in excess of working capital. Relevant liabilities are also released from these funds from time to time.	Action should be done as per provisions of the Act.
(b) Department of Management Services Circular No. DMS/EAMIL MRD/A/8 dated on 12 November 2001	In contrary to the instructions in circulars, one month salary including basic salary and cost of living allowance had been paid as incentives in the year under review.	Agreed with the audit observation. As it has been given approval for the payment of incentives of 20 per cent from annual profit under two bases of common pool and profit pool under circular referred in relation to the incentive payments by Department of Management Services Circular on 12 November 2001, though that amount was provisioned for incentives, only one month salary had been paid as above incentive as a part of incentive by calculating	Actions should be done as per instructions in the Circulars.

only based on profit pool instead of paying total incentive as that circular was not updated.

(c) Financial Regulations of Democratic, Socialist Republic of Sri Lanka

(i) Financial Regulation 1645	The log books of 05 vehicles regarding the payment of annual license fees have not been updated after 2015/2016 with notes and any note has not been recorded for a vehicle. Also, the pages which should have mentioned the details of the motor vehicle for 06 vehicles had not been completed properly.	As per financial regulation 1645, this has not been updated due to changes in the drivers assigned to maintain log books for the vehicles of the Authority and reporting to the duty on rotation basis. The planning division was instructed to keep all logs updated and maintained. Since annual license fees have been paid for all vehicles, accordingly, the log books have been prepared as scheduled.	Actions should be done as per financial regulations
(ii) Financial Regulation 1646	Monthly summaries of the year under review for the Authority's vehicles were not submitted and daily running charts were not submitted for 25 vehicles. Of those 25 vehicles, number of vehicles that did not submit their monthly running charts for more than three months was 17.	As per financial regulation 1646, though the running charts of a vehicle should be submitted to the government audit branch within first week of the following month, we accepted that preparation of running charts had become irregular as inability to continue office works due to Covid risk though drivers have been awarded to provide running charts to the planning division on time. Actions has been taken by paying special attention to complete missed running charts in previous year and, regularize the future running charts.	-Do-

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit of Rs. 25,577,610 as compared with the corresponding profit of Rs. 160,991,829 for the preceding year. Accordingly, it was observed a decline of Rs.135,414,219 in the financial result. Decreasing in gem & jewellery exportation services charges, fees received when valuing gems, gem license fees, other receipts and, delay in collecting exports services charges properly had been the main reasons for this decline.

2.2 Trend Analysis of Major Income and expenditure

Income	2020	2019	Percentage of increasing/decreasing	Observations
Gem and jewellery export services charges	83,380,249	127,690,365	(34.70)	Delay in charging export services charges
Gem trading license income	39,952,148	53,522,824	(25.35)	Decrease in income due to Covid pandemic
Gem valuing income	10,606,562	25,189,250	(57.89)	-Do-

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 1,482,000 of allowance for Rs. 6,000 per employee of the Authority had been paid by Welfare Society through authority's funds without any legal provisions or authority.	In terms of Section 14.2 (1) (i) of the Authority Act, As there are legal provisions that provisions can be made to provide welfare and recreational facilities for the staff of the Authority, Under this, a certain amount of money is allocated annually from the budget for welfare activities to the welfare society and, that amount will be credited to the account of the Welfare Society. Under this an amount of Rs. 1,482,000 was allocated from the annual budget for the activities of the Society for the year 2020 as well. A welfare allowance of Rs.6,000 each had been paid by Welfare	Actions should be taken not to make such payments without legal provisions and authority.

Society by considering the economic hardships of employees during the period when the country was closed due to the corona risk in 2020 .

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
(a) (i) When the Director in charge of the Land, Excavation and Environment Division of the Authority is suspended and a disciplinary inquiry is held, based on the notice given by the Minister in charge of the subject to reinstate the relevant officer in service and conduct disciplinary inquiries, he had been reinstated subject to disciplinary inquiry. The chairman of the Authority has taken actions to stop the disciplinary inquiry by releasing relevant officer from all charges based on the report issued by internal auditor by submitting an appeal forwarded by the relevant officer later. The Board approval has not been taken to release by acquittal and reinstate the officer and, a letter related to such release was not issued. Rs.405,300 that has been incurred by the Authority for this inquiry had been an unuseful expense. In addition to that, as the authority was taken action to release from all charges through	Accepted that the expenses incurred related to this inquiry were unuseful. Since action was taken to appoint a retired external officer with expertise in conducting a preliminary inquiry on the need to conduct these preliminary investigations in a more independent and transparent manner, I admit that it had to bear these costs for that investigation under that. However, actions had been taken to release by acquitte by the chairman / CEO by considering all matters on the report submitted by the internal auditor regarding the erroneous nature of the preliminary investigation report so submitted, appeal of the accused officer and matter stated in the initial investigation. The chairman was acted as such since the decisions of stopping disciplinary inquiries reinstate and release the accused officer by acquitte are taken by the disciplinary officer. As if this inquiry is carried out further, the authority has to bear more and more financial losses than now, I would like to point out that the Chairman has decided to suspend this inquiry.	Disciplinary inquiry should be done properly and such unuseful expenses should not be incurred for that.

another inquiry that held as above in relation to this officer, the expense of Rs.122,610 incurred for that had been an unuseful expense.

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| <p>(ii) While disciplinary inquiries are being conducted against 05 officers regarding irregularities in the method of valuing gems relevant to the rough gem auction, four of the officers had been reinstated after undergoing a formal disciplinary inquiry and, one officer had been retired due to reaching retirement age. Here, when a formal disciplinary inquiry is held, based on the committee report, actions had been taken to advise 02 officers and release 03 officers from all charges by appointing an internal inquiry committee of the authority by suspending that. The amount of money of Rs.377,000 incurred for this inquiry had been a wasteful expense.</p> | <p>As mentioned in this report, we accepted that the amount of money of Rs.377,000 incurred for this inquiry had been an unuseful expense. Although actions taken to inform officers of disciplinary inquiries at several instances to provide disciplinary order by speeding up the formal disciplinary inquiries, it is informed that as the disciplinary authority, the chairman has decided on 30 June 2020 to suspend formal disciplinary inquiries, and review the initial investigation report through internal committee based on inability to finish those matters and unnecessarily incurring time and expense for inquiries. It would like to inform that as the disciplinary authority, the chairman and CEO has decided to review the initial investigation report and took actions to suspend the formal disciplinary inquiries since it took considerable time to examine the 05 officers per 15 charges based on initial investigation, incurring Rs.377,000 by that time without any progress, there was no positive response for the request made by the chairman to speed up relevant inquiry report and Because all these people are in the training officer category.</p> | <p>Disciplinary inquiry should be done properly and such unuseful expenses should not be incurred for that.</p> |
| <p>(iii) Due to the slow and irregular nature of disciplinary actions, an officer who had been suspended for more than nine months was reinstated by releasing from all charges without</p> | <p>When examining the appeal given by the accused officer to the disciplinary authority on 29 July 2020 in relation to the charge sheet No. NGJA/4/1/In/2019/03, as he was not in charge of the Katunayake Export Center at the time of the allegations, it was revealed that there is no</p> | <p>Disciplinary inquiry should be done properly and such unuseful expenses should not be incurred for that.</p> |

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| <p>conducting a formal disciplinary inquiry. Measures were also taken to pay arrears for a period of suspension. The cost of Rs. 33,200 paid for this inquiry had been a wasteful expense.</p> | <p>possibility of further disciplinary action regarding the charge sheet. Accordingly, upon completion of the disciplinary proceedings, the relevant officer was reinstated and salaries and allowances were paid. If a formal disciplinary inquiry had been held into this false allegation, the Authority could have incurred more than Rs. 33,200 and, The termination of such disciplinary proceedings minimized the possible financial loss.</p> |
| <p>(b) The Authority has to incur a financial loss of Rs.6.6 million due to the removal of an electric furnace purchased in year 2015 at a high cost for the authority.</p> | <p>It has spent huge amount of electricity when using the electric furnace with asset no. 01/ASS/CAB/FURNACE/1 under Furnace cupellation and, it takes more time to get the required temperature. Further, it was informed that this was removed from use, since impractical use of this machine due to the high heat emitted from this electric oven and, the officers who operate the machine have to face a serious risk.</p> <p>Action should be taken against the relevant officials in connection with the purchase of an electric furnace which has technical defects and deficiencies.</p> |
| <p>(c) Investment of Rs. 200,000 in a Private Company as stated in the Financial Statements as at 31st December 2005, 2020 had been represented in accounts under other assets as at 31 December 2020. Based on the inability to find information regarding those investments, the Authority had incurred a financial loss of Rs. 200,000 due to the action taken to write off the books.</p> | <p>It indicates a balance of Rs.200,000 paid to Gems & Gems Institute since 2002 under damages. But as no enough information could be found to write off this balance in the accounts, the relevant indemnity was shown in the accounts.</p> <p>Management should take steps to prevent such financial losses in the future.</p> |

3.3 Management Inefficiencies

Audit Observation

- (a) Services charge of 0.5 percent of the export value is payable for gems sold by returning gems not exported from gems exported for international

Comments of the Management

Based on problematic situations related to the transportation of goods due to the impact of the corona epidemic, international flights were suspended in Sri

Recommendation

Action should be taken to recover these service charges expeditiously.

exhibitions to the Authority within 120 days. The exporter will have grace period of 30 days to submit sales information and, failure to submit the required details within that period will result in a service charge for the total value of the gem. However, a service charge of Rs. 11,018,756 was not levied on 10 exporters who exceeded 150 days of such exports during the year under review and, those exporters were given the opportunity to re-export without charging the arrears.

Lanka as well as in other parts of the world, the grace period given for retuning exports has been extended with the approval of the chairman and CEO by considering the requests made by exporters in relation of the inability to getback exported unsold gems within 150 days.

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| (b) | Three exhibited gems valued at Rs. 371,842,648 in the accounts for the year under review were revalued at Rs. 765,316,000 on 10 February 2021. Although the accounts indicate that these gems have been revalued after the balance sheet date, the sufficient details of the weight (carat) and value of the 03 gems were not included. | The new assessed value of the 03 exhibited gems on 10th February 2021 was revealed by the notes in the account and, I would like to inform you that action has been taken to provide the relevant details of that assessment to the audit. | The relevant matters should be stated in the accounts materially. |
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3.4 Idle or Under-utilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
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An amount of Rs. 2,158,737 had been spent for new purchases and repairs during the period of 2016- 2019 by allocating a hall with the extent of 266.5 square feet for the establishment of small gem museum in Rathnapura office building. 12 showroom cabinets that purchased at Rs.1,475,000 for the that museum had been under-utilized for 4 years. Due to the relocation of the museum to another location during the year	It is accepted that the Authority has spent Rs. 2,158,737 from 2016 to 2019 to start the Mini Museum which was to be started. The officer in charge of the Ratnapura Laboratory who was working on the museum was suspended in 2019 and could not proceed with the	It should be work as planned.

under review, the money spent on it was a wasteful expense.

work. At the suggestion of the former Chairman of the Authority, the Mini Museum has not been established on the site but has been initially started on an area of about 5000 square feet on the top floor of the old building. All the underutilized glass showroom cabinets pointed out by the audit query have been redirected to the new museum.