

National Gem and Jewellery Authority



ANNUAL REPORT

2013

Hon. Minister of Environment and Renewable Energy
Ministry of Environment and Renewable Energy
82, "Sampathpaya"
Rajamalwatte Road
Battarammulla

Hon. Minister,

ANNUAL REPORT FOR THE YEAR 2013

In terms of section 32(3) of the National Gem & Jewellery Authority Act. No.50 of 1993 and section 14(2) of the Finance Act.No.38 of 1971, I submit the following documents.

1. The Administration Report of the National Gem & Jewellery for the year 2013.
2. Balance Sheet as at 31st December 2013 and the Profit & Loss Account for the year ended 31st December 2013 of the Authority duly audited by the Auditor General.
3. The Report of the Auditor General.

Thanking You

Yours Faithfully

Amitha Gamage
Chairman & Chief Executive Officer
National Gem & Jewellery Authority

OUR VISION

“ To make Sri Lanka the leading producer of Blue Sapphires and coloured Sapphires and a regional centre for high quality jewellery to the world.”

OUR MISSION

“ Our aim is to provide optimum facilities for gem and jewellery industry by maximum utilization of available resources through appropriate technology, credible quality certification scheme, to achieve sustainable development with an equitable benefits sharing scheme towards our stakeholders, for the development and promotion of the gem & jewellery industry. ”

The Board of Directors of National- Gem & Jewellery Authority - Year 2013

		Date Joined	Date Resigned	
1.	Mr. Prasad Galhena	Chairman	05.01.2012	17.04.2013
2.	Mr. Amitha Gamage	Chairman	17.04.2013	
3.	Mr. Sarath Samarakoon	Member	14.05.2010	17.04.2013
4.	Mr. R.M. Jayathilaka	Member	14.05.2010	17.04.2013
5.	Mr. Janaka Rathnayake	Member	30.06.2010	17.04.2013
6.	Mr. Mohomed Faizal Razeen	Member	30.06.2010	17.04.2013
7.	Mr.T.K.N.C. Tiyyabarawaththa	Member	17.04.2013	
8.	Mr. P.H.O. Chandrawansa	Member	30.04.2013	
9.	Mr. A.K. Senavirathne	Member	30.04.2013	
10.	Ms. Chandra Ekanayake	Member	30.04.2013	
11.	Mr. Bandula Egodage	Member	26.06.2013	
12.	Dr.W.L.D.R.A. Kumarathilaka	Member	30.04.2013	
13.	Mr. T.M. Sirisoma	Member	17.04.2013	
14.	Mr. Aruna Lekamge	Member	17.04.2013	
15.	Mr. R De S. Munasinghe	Member	06.05.2013	
16.	Mr. S.M.N. Lalith Senanayake	Member	06.05.2013	
17.	Mr. Armil Samoon	Member	17.04.2013	

Administration Report of the National Gem and Jewellery Authority

For the year 2013 Under 14(1) of the Finance Act No.38 of 1971

- 01.** The year 2013 marks the 19th year of operations of the National Gem and Jewellery Authority. Its activities for the year under review were conducted through the Head Office in Rathnapura and office in Colombo & Regional Units in Rathnapura, Eheliyagoda, Matara, Naula and Monaragala, Katunayake Gem Export Centre and Gem & Jewellery Exchange at the World Trade Centre.
- 02. The Functions of the Authority :**
- a) To promote and develop the gem industry and the jewellery industry;
 - b) To initiate and implement schemes for the promotion and development of the gem industry and the jewellery industry;
 - c) To exploit the market for gems and jewellery whether in or outside Sri Lanka and to promote the demand for such gems and jewellery in world markets;
 - d) To promote and sponsor technical training of personnel on every aspect relating to the gem industry and the jewellery industry and especially on heat treatment and gem cutting, with a view to developing such industries;
 - e) To take such steps that are necessary to generate confidence in the gem industry and the jewellery industry among prospective buyers;
 - f) To prevent unlawful gemming and the unlawful removal of gems from Sri Lanka;
 - g) To act as the sole authority responsible for the alienation of the right to mine for gems in or over State land, or in or over land disposed of by the State or the State Gem Corporation where the mining or gemming rights remain with the State, whether by reason of any reservation or otherwise;
 - h) To provide technical and other advice and the infrastructural support necessary for the marketing of gems and Jewellery;
 - i) The administration of any scheduled written law in so far only-
 - i. As it is applicable in the case of gems or the gem industry; or
 - ii. As it may be necessary so to do for the purpose of enabling the Authority to exercise, discharge and perform its powers, functions, and duties under the Act;
 - j) To establish offices for certification of gems and assaying of precious metal;
 - k) To provide for the jewellery manufactured in Sri Lanka to be stamped with a hall mark in the prescribed manner, at the request of a manufacturer;
 - l) To provide the necessary liaison between the gem industry, the jewellery industry and Government Departments, in order to promote and co-ordinate the development of the gem industry and the jewellery industry in Sri Lanka;
 - m) To regulate and control the terms and conditions of employment of persons who work in the gem industry and the jewellery industry, and in particular the safety measures to be taken to protect such persons from danger to life and limb.

03. Financial

3.1 Liquidity :

Cash and cash equivalents at the beginning of the year was Rs.48.377 (Mn) and at the end of the year it was Rs. 97.961(Mn). Held to Maturity Investments (Treasury bills) at the beginning of the year was Rs.191.610 (Mn) and at the year end it was Rs. 216.381(Mn).

Other Financial Assets at the beginning of the year was Rs.544.706 (Mn) and at the year end it was Rs. 639.376 (Mn).

3.2 Profitability :

	2008	2009	2010	2011	2012	2013
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Total Income	258.180	219.443	228.962	250.300	612.004	507.542
Total Expenditure	228.772	230.942	261.929	222.488	261.076	387.458
Profit (Before Tax)	29.408	(11.498)	(32.967)	27.812	350.928	120.084

04. Human Resources :

The staff of the Authority reached 245 at the end of 2013 including professionals. Continuous professional development of our team members are considered high priority and several steps were taken to provide opportunities for human resource development.

05. Issue of Licenses :

The number of licenses issued by the Regional Office and the Colombo Office of the Authority for the gem industry compared with the last five years is given below:

	2008	2009	2010	2011	2012	2013
Gemming Licenses	4,204	3,970	4,061	4,687	5,956	6,565
Gem Dealers Licenses	4,794	4,036	4,195	4,422	4,382	4,429
Lapidary Licenses	194	174	168	179	177	192
Gem Auction Licenses	300	217	262	277	364	624
Total Licenses	9,527	8,357	8,686	9,565	10,879	11,810

06. Control of Unauthorized Gemming and Damages to the Environment :

The officers of the Authority have conducted several raids during the period under review to check illicit gemming and to prevent environmental destruction. The income earned from fines to amount Rs. 11.862 million. The Authority had taken action to close the abandoned gem pits and rehabilitate damaged riverbanks:

07. Service & Other Development Activities:

7.1 Export & Export Promotion Activities

1. Sponsored and organized “Sri Lanka Pavilion” at the selected International Trade Fairs & Exhibitions.
 - i. Jewellery Shanghai Show - 10 – 13 May, 2013
 - ii. The JCK Las Vegas Show - 31 May – 3 June, 2013
 - iii. Singapore International Jewellery Show – 4 – 7 July, 2013
 - iv. China International Jewellery Show – 31 October – 4 November 2013
 - v. China International Gold, Jewellery & Gem Fair – 8 – 11 November 2013
2. Organized Gem and Jewellery Sector participation at the following events,
 - i. Sri Lankan – 3 Day Mega Promotion in Mumbai & Bangalore which was organized by Sri Lanka Tourism
 - ii. South Asian Commodity Fair organized by Sri Lanka Export Development Board
 - iii. 82nd Izmir International Fair organized by Sri Lanka Export Development Board
3. Sponsored and organized NGJA Pavilion at the Local Trade Fairs and Exhibitions
 - i. “Ayurveda Expo 2013” organized by National Chamber of Commerce
 - ii. 23rd Sri Lanka International Gem and Jewellery Show – “Facets Sri Lanka 2013”
 - iii. “Jewels 2013” organized by Gemmologists Association of Sri Lanka
4. Monitored and Facilitated Gold Importation of Bankers and Private entities.
5. Recommended and Monitored issuance of Foreign Exchange (less than US\$ 50,000/-) to the Gem and Jewellery Community to purchase their machinery and Raw Material.
6. Issuance of Recommendation Letters to the line Ministry on the requests of Foreign Entrepreneurs and Employees those who are engaged in Gem and Jewellery Industry to renew and obtain residential visas in Sri Lanka.
7. Issuance of Visa Letters to Visa Officers of the respective countries, on the requests of Sri Lankan Gem and Jewellery Trading Community to process their visas.
8. Administration of an exclusive website of NGJA www.srilankagemautho.com .
9. Facilitation and promotion of “Sri Lanka Gem and Jewellery Exchange”: being the only government sponsored gem and jewellery shopping complex in Sri Lanka.
10. Offered Jewellery Manufacturing tools and equipments for Small and Medium Scale Jewellery Manufacturers based in Kurunegala District.
11. Organized and Conducted Awareness Programmes for Small and Medium Entrepreneurs on New Trends and Standards in Jewellery industry.
12. Management and operation of “Rathnadeepa” Showroom and sales outlet to promote and market Jewellery articles produced by SME Jewellery Manufacturers in Sri Lanka.
13. Provide assistance to import Raw Materials, tool, machinery & Equipment used in the gem and jewellery industry on a concessionary duty basis.
14. Facilitate visiting government and private sector delegations on their official or business mission towards the Gems and Jewellery.
15. Offered round the clock export facility at the gem export facility at the gem export center Air Cargo Village – Katunayake on Tuesday and Fridays.
16. Monitored and facilitated Kimberly process certification scheme on the import and export of rough diamonds.

08. Gem & Jewellery Exports :

The statistics given below shows the status of Gem & Jewellery exports of Sri Lanka during the last five years and the year 2013 under review:

	2008	2009	2010	2011	2012	2013
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
Gem Exports	8,281.055	7,225.8	7,488.6	10,027.6	14,557	14,805
Gem – NSS Special Project	-	-	-	-	-	1,839
Jewellery Exports	1,727.926	1,522.9	1,490.5	1,732.3	2,444	2,194
Geuda Exports	163.634	107.7	136.5	146.7	225	122
Diamond Re-Exports	44,393.700	35,965.96	36,030.1	45,381.1	52,893	37,885
Diamond Jewellery Exports	932.390	417.5	312.5	375.8	324	229
Total Exports	55,498.705	45,239.86	45,458.20	57,663.5	70,443	57,074

Amitha Gamage

Chairman & Chief Executive Officer

National Gem & Jewellery Authority

2014-02-27

NATIONAL GEM & JEWELLERY AUTHORITY
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013		2012	
		Rs.	Cts.	Rs.	Cts.
ASSETS					
Non-Current Assets					
Property, Plant & Equipment	3	227,741,261		245,815,430	
Leasehold Land (Right-To-Use Land)	4	30,727		33,091	
Intangible Assets	5	357,792		566,667	
Deferred Tax Asset	6	(18,292,344)		(16,062,221)	
Other Assets	7	371,939,331		371,939,331	
Available-for-Sale (AFS) Financial Assets	8	1,200,000		1,200,000	
Total Non-Current Assets		582,976,766		603,492,298	
Current Assets					
Inventories	9	2,160,405		1,699,601	
Receivables	10	9,396,134		12,310,785	
Held-to-Maturity Investment (HTM)	11	216,381,558		191,609,933	
Deposits and Advances	12	32,709,520		31,690,952	
Prepaid Expenses		-		499,457	
Employee Loans & Advances	13	13,659,749		13,749,877	
Other Financial Assets	14	639,376,488		544,706,305	
Cash and Cash Equivalents	15	97,964,396		48,377,798	
Total Current Assets		1,011,648,249		844,644,708	
TOTAL ASSETS		1,594,625,015		1,448,137,006	
EQUITY & LIABILITIES					
Equity					
Contributed Capital	16	30,000,000		30,000,000	
Gem Mining Welfare Fund	17	26,927,498		27,227,498	
Jewellery Development Fund	18	29,059,263		23,657,481	
Gem Rewards Fund	19	36,511,450		33,302,890	
Gems Revaluation Reserve	20	355,074,648		355,074,648	
Revaluation Reserve	21	52,945,424		52,945,425	
Retained Earnings		440,155,420		383,673,444	
Total Equity		970,673,703		905,881,386	
Non-Current Liabilities					
Retirement Benefits Obligation	22	23,995,857		18,607,015	
Deferred Tax Liability	6	-		-	
Liability to Make Lease Payments - Settlements Fall Due More Than One Year	23.1	11,680		13,241	
Total Non-Current Liabilities		24,007,537		18,620,256	
Current Liabilities					
Liability to Make Lease Payments - Settlements Fall Due Within One Year	23.1	2,230		2,495	
Payables	24	64,715,858		38,172,804	
Gemming Deposits		326,673,784		226,048,309	
Deposits and Advances Received	25	96,452,755		72,284,306	
Statutory Payable	26	92,638,388		166,462,222	
Provisions and Accrued Expenses	27	19,460,760		20,665,228	
Total Current Liabilities		599,943,775		523,635,364	
TOTAL EQUITY & LIABILITIES		1,594,625,015		1,448,137,006	

The Management is responsible for the preparation and presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards.

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CHAIRMAN / CEO

.....
CHIEF ACCOUNTANT

NATIONAL GEM & JEWELLERY AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013		2012	
		Rs.	Cts.	Rs.	Cts.
Revenue	28	370,695,500		530,208,556	
Other Income	29	26,730,178		34,191,429	
Administration Expenses	30	(126,580,200)		(96,694,548)	
Personnel Expenses	31	(130,071,227)		(116,196,580)	
Promotional Expenses	32	(30,807,746)		(48,184,513)	
Operating Profit		109,966,504		303,324,343	
Net Finance Income	33	110,117,497		47,603,957	
Profit after Net Finance Income		220,084,001		350,928,300	
Contribution to Consolidated Fund		(100,000,000)		-	
Profit Before Tax		120,084,001		350,928,300	
Income Tax Expenses	34	(60,921,156)		(165,810,740)	
Profit for the Year		59,162,844		185,117,561	
Profit for the Year		59,162,844		185,117,561	
Other Comprehensive Income		-		-	
Total Comprehensive Income for the Year		59,162,844		185,117,561	

NATIONAL GEM & JEWELLERY AUTHORITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
Profit Before Tax	120,084,001	350,928,300
<i>Adjustments for</i>		
Deprecation	25,259,064	13,093,088
Amortization of Intangible Assets	208,875	376,375
Provision for Retirement Benefit Obligations	8,115,151	(115,661)
Dividends	(1,351,171)	(838,432)
Profit on Disposals of Fixed Assets	(103,034)	(10,976,843)
Interest Income	(110,141,997)	(47,138,919)
Finance cost on Liability to Make Lease Payments	24,500	24,190
Amortization of Right-to-use Land	2,364	2,364
Provision for Impairment of Deposits & Advances	-	76,500
Bad Debts	1,404,560	-
Provision for Legal Claims	3,400,000	195,300
Provision for Impairment of Property, Plant & Equipment	1,952,934	2,934,756
Operating Profit Before Working Capital Changes	48,855,247	308,561,018
Changes in working Capital		
Inventories	(460,804)	646,378
Receivables	2,914,651	4,087,819
Deposits and Advances	(1,018,568)	43,168
Prepaid Expenses	499,457	155,699
Employee Loans & Advances	90,128	952,591
Payables	26,543,054	(3,220,158)
Gemming Deposits	100,625,475	75,719,776
Deposits and Advances Received	24,168,449	16,276,554
Provisions and Accrued Expenses	(1,799,657)	18,941,525
Cash Generated from Operations	200,417,432	422,164,369
Gratuity Paid	(2,726,309)	(10,848,643)
Taxes Paid	(135,980,365)	(7,123,178)
Net Cash from Operating Activities	61,710,758	404,192,548

Cash Flows from Investing Activities

Acquisition of Property, Plant and Equipment	(12,141,003)	(59,737,840)
Proceeds from Disposal of Fixed Assets	130,700	10,976,843
Acquisition of Intangible Assets	-	-
Dividend Received	901,934	838,432
Net Investment in Other Financial Assets	(94,670,183)	(240,365,948)
Net Investment in Treasury Bills	(24,771,625)	(160,141,058)
Interest Received	110,141,997	47,138,919
Net Cash from (used in) investing activities	(20,408,179)	(401,290,651)

Cash Flows from Financing Activities

Utilization of Gem Mining Welfare Fund	(300,000)	(129,000)
Settlement of Liability to Make Lease Payments	(26,325)	(26,325)
Contribution to Jewellery Development Fund	5,401,782	6,202,398
Contribution to Gem Rewards Fund	3,208,560	3,803,702
Net Cash From (used in) Financing Activities	8,284,017	9,850,774

Net Changes in Cash & Cash Equivalents

Net Changes in Cash & Cash Equivalents	49,586,597	12,752,671
Cash & cash Equivalents at Beginning of the year	48,377,798	35,625,127
Cash & Cash Equivalents at End of the Year	97,964,396	48,377,798

(Note 15)

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements of National Gem and Jewellery Authority (“Authority”) have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs). The financial statements have been prepared under the historical cost convention, as modified by the fair value of available-for-sale financial assets. The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRSs) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed.

1.2 Changes in Accounting Policies

The changes in accounting policies set out below have been applied consistently to the periods presented in the condensed financial statements and to the opening SLFRS statement of financial position at the date of transition to SLFRSs, unless otherwise indicated.

The presentation and classification of the consolidated financial statements of the previous year have been amended, where relevant, for better presentation and to be comparable with those of the current year.

1.3 Foreign Currency Translation

1.3.1 Functional and Presentation Currency

Transaction and balances included in the financial statements are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Sri Lanka Rupees (LKR), which is the Authority’s presentation currency.

1.3.2 Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Translation differences related to changes in amortized cost are recognized in the statement of comprehensive income.

1.3.3 Property, Plant and Equipment

Property, plant and equipment are initially recognized at cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the management.

Property, plant and equipment acquired before 1998 were carried at revalued amounts in the statement of financial position prepared as at 31 December 2013. The Authority has elected such revalued amount as deemed cost at the date of the revaluation as the revalued amount was broadly comparable to fair value. Accordingly the property, plant and equipment are stated at deemed cost less accumulated depreciation and any accumulated impairment losses. Property, plant and equipment acquired after 1998 are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a an asset, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated, depreciation on other assets is calculated using the straight-line method to allocate their cost or deemed cost over their estimated useful lives, as follows:

Assets Category		Rates
Buildings	30 - 50 Years	2% - 3.33 %
Partition	3 Years	33.33 %
Laboratory and Jewellery Inspection Equipment	10 Years	10 %
Furniture and Office Equipments	10 Years	10 %
Motor vehicles	4 Years	25 %
Computer Equipments	5 Years	20 %
Others	10 Years	10 %

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.3.4 **Intangible Assets**

Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software and systems. Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses. These costs are amortized over their estimated useful lives, as follows:

Assets Category		Rates
Computer Software	5 Years	20 %

Costs associated with maintaining computer software are recognized as an expense as incurred.

1.3.5 **Leasehold land**

Land held under leases is initially measured at an amount equal to present value of the lease payments discounted using the incremental borrowing rate plus any initial direct costs incurred at the inception and subsequently the leasehold land is measured at amortized cost. The value of leasehold land is amortized over the lease period.

Assets Category		Rates
Leasehold land	30 Years	3.33 %

1.3.6 Impairment of Non-Financial Assets

At each end of reporting period, the Authority reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

1.4 Financial Assets

1.4.1 Classification

The Authority determines the classification of its financial assets at initial recognition and classifies its financial assets as follows:

- I. Loans and receivables
- II. Available for sale (AFS)
- III. Held to Maturity Investments (HTM)

I. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Authority's loans and receivables comprise trade and other receivables, repurchase government securities, advances, deposits, loans to employees and cash and cash equivalents in the end of reporting period.

II. Available for sale (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available for sale financial assets comprise of long term unlisted equity investments.

III. Held-to- Maturity Investment (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Authority has the positive intention and ability to hold them until maturity.

HTM investments are included in current assets unless maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Authority currently holds investment in Treasury Bills designated into this category.

1.4.2 **Recognition and Initial Measurement**

Financial assets classified as loans and receivables are recognized on the date on which the Authority originates the transaction. Other financial assets are recognized on the trade-date on which the Authority becomes a party to the contractual provisions of the financial instrument.

A financial asset is measured initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership of the financial assets.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership of the financial assets.

1.4.3 **Subsequent Measurement**

I. Loans and receivables

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less provision for impairment.

II. Available for sale (AFS)

After initial recognition, unlisted equity investments classified as AFS financial asset are measured at cost less any Impairment losses, as currently its fair value cannot be estimated reliably.

III. Held-to- Maturity Investment (HTM)

HTM investments are measured subsequently at amortized cost using the effective interest method less any impairment losses. Amortized cost is computed taking into account of discount or premium on acquisition and transaction costs.

1.4.4 **Impairment of financial assets**

I. Assets carried at amortized cost

The Authority assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events)

has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables and held-to-maturity investments carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial assets is reduced and the amount of the loss is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

II. Available for sale (AFS)

The Authority assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. For unlisted equity investments, a significant or prolonged decline in the value of the investments below its cost is also evidence that the assets are impaired. If any such evidence exists for the unquoted investments, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.5 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories comprise of consumables and stationeries.

1.6 Receivables

Receivables are recognized initially at fair value (invoice value) and subsequently measured at the original invoice value less provision for impairment as the dues are expected to be received within short period, such that the time value of money is not significant.

The Authority assesses at the end of each reporting period whether there is objective evidence that receivables are impaired. Objective evidences of impairment for receivables include the Authority's past experience of collecting payments and number of delayed payments. Receivables are impaired and impairment losses are incurred, only if there is objective evidence of impairment. Receivables are assessed individually for impairment.

1.7 Cash and Cash Equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

1.8 Contributed Capital

Capital represents the initial capital comprising of amount lying to the credit of the State Gem Corporation and transferred to the Authority.

1.9 Financial Liabilities

The Authority classifies financial liabilities into other financial liabilities. The Authority's other financial liabilities include payables, advance received on license fee, gemming deposits and other deposits received. The other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at the original value as the dues are expected to be paid within short period.

The Authority derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

1.10 Current and Deferred Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income statement, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income. The current income tax charge is calculated on the basis of the tax laws enacted at the reporting period end applicable for the Authority operate and generate taxable income. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted at the reporting period end date and are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority.

1.11 Employee benefits

(a) Defined Contribution plan

A defined contribution plan is a post employment benefit plan under which the Authority pays fixed contributions into a separate entity. The Authority has no legal or constructive obligations to pay further contributions. The contributions are recognized as employee benefit expense when they are due.

The Authority contributes 15% on gross emoluments of employee to Employee Provident Fund (EPF) and 3% on gross emoluments of employee to Employee Trust Fund (ETF).

(b) Defined benefit plan

The Authority obligation in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is measured annually using the projected unit credit method calculated using the gratuity formula. The present value of the defined benefit obligation is determined by discounting the estimated future benefit that employee have earned in return for their services in the current and prior period.

Gains and losses arising from changes in the assumptions, current service cost and interest are recognized in the statement of comprehensive income in the period in which they arise.

The retirement benefit obligation is not externally funded.

(c) Short-term employee benefit

Short-term employee benefit obligations are measured on an undiscounted amount expected to be paid for related services provided by the employees.

1.12 Provisions and Contingent Liabilities

Provisions for legal claim and other operational expenses are recognized when the Authority has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Authority and amounts can be estimated reliably.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

All contingent liabilities are disclosed as a note to the financial statements unless the possibility of an outflow of resources is remote.

1.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for sale of gemming rights, license fees, export commission and services rendered, stated net of Value Added Taxes (VAT) and Nation Building Tax (NBT). The Authority recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Authority.

The Authority applies the revenue recognition criteria set out below to each identifiable major types of services rendered.

a). Sale of Gemming Rights (Land Auction)

Sale of gemming rights is the quoted price charged for giving permits to licensee for gemming in blocks reserved. Revenue is recognized at the time of issuing the gemming license.

b). License Fee - Dealers and Lapidary License

License fee is recognized as revenue on a straight line basis over the life of license.

c). License Fee – Gemming, BACO and Gem Auction License

License fee is recognized as revenue at the time of issuing the gemming license.

d). Gems & Jewellery Export Commission (Export Service Fee and Katunayake Diamond Center Service Fee)

Export Commission is recognized as revenue at the time of goods are ready for export.

e). Services

Revenue from site inspection is recognized at receipt of payments.

f). Rental Income

Rental income is recognized on an accrual basis over the term of lease.

g). Interest Income

Interest income is recognized using the effective interest method.

h). Dividend Income

Dividend income is recognized when the right to receive payment is established.

i). Gain and Losses on Disposal of Property, Plant and Equipment

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

1.14 Expenses

All other expenditures incurred in the running of the operation are to income in arriving at the profit for the reporting period.

1.15 Events after the Reporting Period

All material events after the reporting period have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

1.16 Commitments

All material commitments at the reporting period end have been identified and disclosed in the notes to the financial statements.

1.17 Significant Accounting Estimates and Judgments

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

I. The following are significant judgments in applying the accounting policies that have most significant effect on the financial statements.

(a) Recognition of Deferred Tax Assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the future taxable income against which the deferred tax assets can be utilized.

II. Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below:

(a) Useful life time of depreciable assets

Management reviews its estimate of the useful life time of depreciable assets at each reporting date, based on the expected economic utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

(b) Defined benefit plan

The present value of the defined benefit plan obligations depends on a number of factors that are determined on projected unit credit basis by using number of assumptions. The assumptions used in determining the net cost and obligation for defined benefit plan including the discount rate are disclosed in the note 22.1 Any changes in these assumptions will impact the carrying amount of defined benefit obligation.

NATIONAL GEM & JEWELLERY AUTHORITY
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Contributed Capital	Gem Mining Welfare Fund	Jewellery Development Fund	Gem Rewards Fund	Other Reserve	Gems Revaluation Reserve	Revaluation Reserve	Retained Earnings	Total
Balance as at 01 January 2012	30,000,000	27,356,498	17,455,083	29,499,189	-	-	58,145,425	193,355,884	355,812,079
Fair Value Adjustment						355,074,648			355,074,648
Profit for the Year	-	-	-	-	-	-	-	185,117,560	185,117,560
Other Comprehensive Income	-	-	-	-	-	-	-	-	-
Total Comprehensive Income									896,004,287
Contribution to / (Utilization) for the Year	-	(129,000)	6,202,398	3,803,702	-	-	-	-	9,877,100
Adjustment on Impairment							(5,200,000)	5,200,000	-
Balance as at 31 December 2012	30,000,000	27,227,498	23,657,481	33,302,891	-	355,074,648	52,945,425	383,673,444	905,881,387
Fair Value Adjustment	-	-	-	-	-	-	-	-	-
Profit for the Year	-	-	-	-	-	-	-	59,162,844	59,162,844
Other Comprehensive Income	-	-	-	-	-	-	-	-	-
Total Comprehensive Income									965,044,231
Prior Year Adjustment								(2,680,868)	(2,680,868)
Contribution to / (Utilization) for the Year	-	(300,000)	5,401,782	3,208,559	-	-	-	-	8,310,341
Adjustment on Impairment	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2013	30,000,000	26,927,498	29,059,263	36,511,450	-	355,074,648	52,945,425	440,155,420	970,673,703

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

3 Property, Plant & Equipment	As At 01 January 2013	Additions	(Disposals)	As At 31 December 2013
Cost				
<i>Freehold</i>				
Land	37,941,670	-	-	37,941,670
Buildings	153,108,406	291,861	-	153,400,267
Fixture & Fittings	12,594,781	770,600	-	13,365,381
Furniture	10,837,820	453,325	(32,325)	11,258,820
Office Equipment	13,777,267	1,239,629	(449,500)	14,567,396
Computer	17,728,446	2,007,450	(391,683)	19,344,213
Laboratory Equipment	18,315,510	2,340,989	(70,100)	20,586,399
Lapidary Equipment	403,475	-	-	403,475
Jewellery Equipment	148,200	-	-	148,200
Assay Equipment	20,264,522	5,037,149	-	25,301,671
Machine and Geuda Equipment	8,292,358	-	-	8,292,358
Motor Vehicle	54,172,088	29,072,500	-	83,244,588
Motor Bicycles	100,000	-	-	100,000
Bicycles	37,334	-	-	37,334
Library Books	6,900	-	-	6,900
<i>Leasehold</i>				
Land	159,205	-	-	159,205
	347,887,982	41,213,503	(943,608)	388,157,877
	As At 01 January 2013	Charge for the Year	(Disposals)	As At 31 December 2013
Depreciation				
<i>Freehold</i>				
Buildings	32,320,002	3,995,403	-	36,315,405
Fixture & Fittings	10,302,304	830,033	-	11,132,337
Furniture	7,209,353	895,211	(32,325)	8,072,239
Office Equipment	6,740,281	1,185,540	(127,191)	7,798,630
Computer	11,272,039	2,052,982	(391,683)	12,933,338
Laboratory Equipment	8,330,784	1,695,027	(70,100)	9,955,711
Lapidary Equipment	247,515	32,200	-	279,715
Jewellery Equipment	166,154	-	(17,954)	148,200
Assay Equipment	14,741,566	1,454,862	-	16,196,428
Machine and Geuda Equipment	8,170,011	105,855	-	8,275,866
Motor Vehicle	(470,793)	12,986,015	31,771,320	44,286,542
Motor Bicycles	75,000	25,000	-	100,000
Bicycles	33,579	936	-	34,515
Library Books	-	-	-	-
	99,137,795	25,259,064	31,132,067	155,528,926

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Net Carrying Values	As At 31 December 2013	As At 31 December 2012	As At 01 January 2012
<i>Freehold</i>			
Land	37,941,670	37,941,670	38,091,150
Buildings	117,084,862	120,788,404	121,472,936
Fixture & Fittings	2,233,044	2,292,477	2,880,032
Furniture	3,186,581	3,628,467	4,601,836
Office Equipment	6,768,767	7,036,986	5,198,862
Computer	6,410,875	6,456,407	5,867,971
Laboratory Equipment	10,630,688	9,984,726	3,330,898
Lapidary Equipment	123,760	155,960	188,160
Jewellery Equipment	-	(17,955)	(17,955)
Assay Equipment Machine and Geuda Equipment	9,105,243	5,522,956	5,911,173
	16,492	122,347	805,383
Motor Vehicle	38,958,045	54,642,881	13,703,672
Motor Bicycles	-	25,000	50,000
Bicycles	2,819	3,755	4,691
Library Books	6,900	6,900	6,900
<i>Leasehold</i>			
Land	159,205	159,205	159,205
	232,628,951	248,750,186	202,254,914
Provision for Impairment	(4,887,690)	(2,934,756)	-
	227,741,261	245,815,430	202,254,914

The fair value of the Building constructed at Ehaliyagoda has been transferred to provision for impairment due to non availability of resale value under road Development Authority disclosures

4 Leasehold Land (Right-To-Use Land)

The Right-To-Use Land is measured at an amount equal to present value of the lease payments discounted using the incremental borrowing rate incurred at the inception and is amortized over the period of lease term.

Carrying Value of Right-To-Use Land

	2013	2012
Capitalized Amount		
As At 01 January	70,909	70,909
Initial Cost Incurred	-	-
Capitalized During the Year	-	70,909
As At 31 December	70,909	70,909
Amortization		
As At 01 January	37,818	35,455
Amortization for the Year	2,364	2,364
As At 31 December	40,182	37,818
Carrying Amount	30,727	33,091

The lease right of the land commenced on November 1997 for 30 years. The Right-To-Use Land recognized at transition period (01 January 2011) is amortized over the remaining lease term up to November 2026.

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

5 Intangible Assets	As At	Additions /	As At
	01 Jan. 2013	(Disposals)	31 Dec. 2013
5.1 At Cost			
Computer Software	2,530,056		2,530,056
Total	2,530,056	-	2,530,056
	As At	Charge for the	As At
	01 Jan. 2013	Year	31 Dec. 2012
5.2 Amortization			
Computer Software	2,172,265	-	1,963,389
Total	2,172,265	-	1,963,389
5.3 Net Carrying Values		As At	As At
		01 Jan. 2013	31 Dec. 2012
Computer Software		357,792	566,667
6 Deferred Tax Asset / (Liability)		2013	2012
Balance at 01 January		(16,062,221)	7,011,667
Adjustment		(2,230,123)	(23,073,888)
Balance at 31 December		(18,292,344)	(16,062,221)
7 Other Assets			
Rough Stone & Synthetic Stone		96,683	96,683
Exhibition Gem Stone		371,842,648	371,842,648
Advance Payment Gems and Gems Institute		200,000	200,000
		372,139,331	372,139,331
Provision for Impairment		(200,000)	(200,000)
		371,939,331	371,939,331
8 Available for sale (AFS) Financial Assets			
Unlisted Investments	(Note 8.1)	1,200,000	1,200,000
8.1 Unlisted Investments	<i>No. of Shares</i>		
The Associated Newspapers of Ceylon Limited	20,000	200,000	200,000
G.S.M.B. Technical Services (PVT) Ltd	100,000	1,000,000	1,000,000
		1,200,000	1,200,000
9 Inventories			
Consumables Stock		1,360,639	719,192
Gems - Gauda Centre		183,548	183,548
Printing and Stationery Stock		616,218	796,861
		2,160,405	1,699,601
10 Receivables			
Receivables		9,512,985	13,566,541
Provision for Impairment		(1,407,972)	(1,407,972)
		8,105,013	12,158,569
Others		1,291,121	152,216
		9,396,134	12,310,785

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

11	Held-to-Maturity Investment (HTM)		
	Carrying Amount at Amortized Cost		
	Treasury Bills	216,381,558	191,609,933
12	Deposits and Advances		
	General Deposit	32,143,890	299,750
	Others	19,525	2,401,790
	Rent Deposits	-	7,296,233
	40% Land Auction	-	22,090,642
	Security Deposits	54,500	54,500
	Advance to Suppliers	1,925,552	981,984
		34,143,467	33,124,899
	Provision for Impairment	(1,433,947)	(1,433,947)
		32,709,520	31,690,952
13	Employee Loans & Advances		
	Advances	80,496	146,641
	Welfare Debts for Dead Loan	-	-
	No pay Leaves	169,332	232,259
	Vehicle Loan	400,171	728,260
	Loans	-	5,955
	Textile Loan	186,522	252,556
	Distress Loans	12,823,229	12,384,206
		13,659,749	13,749,877
14	Other Financial Assets		
	Fixed Deposits	625,854,003	541,699,421
	Deposit at State Mortgage bank (for Employee Housing Loan)	-	-
	State Institution Temporary Surplus Fund	13,522,485	3,006,884
		639,376,488	544,706,305
15	Cash and Cash Equivalents		
	Cash and Bank Balances - LKR	55,692,429	19,355,133
	Bank Balances - Foreign Currency	37,119	3,659,811
	Petty Cash	-	-
	Investments in REPO	42,234,847	25,362,854
		97,964,396	48,377,798

16 Contributed Capital

Capital represents the initial capital comprising of amount lying to the credit of the State Gem Corporation and transferred to the Authority.

17 Gem Mining Welfare Fund

The fund had been collected from gem miners till 2008 in compliance with National Gem and Jewellery Authority Act; No.50 of 1993 Part I 14.(n), which requires the Authority to protect the employees works in the gem industry from danger to life.

18 Jewellery Development Fund

This represents annual registration fee of Rs.5,000 collected from jewellery manufactures as proposed in the budget proposals 2007 for supporting technology development in jewellery industry

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

19 Gem Rewards Fund

This represents fines imposed to parties who are charged for offences and the fines received by the Authority is credited to the Fines fund as required by National Gem and Jewellery Authority Act; No.50 of 1993 Part IV 52. This fund is maintained for rewarding raid team and employees as instructed by the Board Circular No.824.

20 Gems Revaluation Reserve

This represents the revaluation surplus of gems stones used as exhibits.

21 Revaluation Reserve

The revaluation reserve relates to the revaluation surplus of land and buildings, once the respective revalued assets have been disposed, portion of revalued surplus is transferred to retained earnings.

22 Retirement Benefits Obligation

	2013	2012
Balance at 01 January	18,607,015	29,571,319
Expense Recognized in the Statement of Comprehensive Income		
note 22.1	8,115,151	(115,661)
Benefit Paid Year 2013	(2,726,309)	(10,848,643)
Adjustments made year 2013	-	-
Balance at 31 December	23,995,857	18,607,015

22.1 Expense Recognized in the statement of comprehensive income

Interest Cost	1,979,786	3,548,558
Charge for the Year	1,107,708	756,216
(Gain) / Loss Arising From Changes in the Assumptions	5,027,657	(4,420,436)
	8,115,151	(115,661)

These assumptions are developed by the Authority is based on the management's best estimates of variables used to measure the retirement benefits obligation.

The principal assumptions used are as follows

Discount rate [%]	11	12.0
Future Salary Increases Average - Salary [%]	1.3	1.3
Staff Turnover Factor [%]	2.5	7.2
Retirement age [Yrs]	60	60

Discount rate is determined on the basis of market rates of long-term Government Bond.

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

23 Liability to Make Lease Payments

Gross Liability

As At 01 January	599,564	625,889
Recognized During the Year	-	-
Payments Made During the Year	(26,325)	(26,325)
As At 31 December	573,239	599,564

Finance Cost

As At 01 January	583,829	608,019
Recognized During the Year	-	-
Finance Cost Recognized in Comprehensive Income During the Year	(24,500)	(24,190)
Finance Cost Allocated to Future Periods	559,329	583,829

Net Liability As At 31 December	(13,910)	15,735
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23.1 Classification of Liabilities

Settlements Fall Due Within One Year

Gross Liability	26,995	26,995
Finance Cost Allocated to Future Periods	(24,765)	(24,500)
	2,230	2,495

Settlements Fall Due More Than One Year

Settlements Fall Due Within Two to Five Years

Gross Liability	131,625	118,463
Finance Cost Allocated to Future Periods	(126,444)	(112,970)
	5,181	5,493

Settlements Fall Due More Than Five Years

Gross Liability	414,619	454,106
Finance Cost Allocated to Future Periods	(408,120)	(446,358)
	6,499	7,748

Total Settlements Fall Due More Than One Year	11,680	13,241
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Total Net Liability As At 31 December	13,910	15,736
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24 Payables

Creditors	62,031,660	-
Retention from Contractors	2,568,873	2,568,873
40% Sales proceeds from Land Auction Payable to LRC and owners of Lands	-	35,152,480
Other	115,325	451,451
	64,715,858	38,172,804

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
25 Deposits and Advances Received		
Receipts in Advance	1,668,387	1,054,223
License Fees	15,243,550	14,591,919
Employee Security Deposits	114,500	69,500
Advances from Customers	15,896	15,896
Over recoveries from Employees	3,066	6,258
Land Dispute Deposits	53,378,475	44,863,550
Tender Deposit	14,103,500	2,880,500
Shop Holder Deposit WTC	11,474,385	8,396,463
Medical Scheme Fund	280,000	280,000
Export Commission Deposits	125,997	125,997
Others	45,000	-
	96,452,755	72,284,306
26 Statutory Payable		
Corporate Tax (Note 26.1)	60,105,954	137,395,277
Value Added Tax	8,736,530	3,838,508
Withholding Tax	(3,017,710)	-
Retained Gem Auction Tax 2.5%	22,633,413	23,137,224
Nation Building Tax	1,782,649	632,041
Stamp Fees	2,432,636	1,397,995
PAYE Tax	(35,085)	61,177
	92,638,388	166,462,222
26.1 Corporate Tax		
Balance as at 01 January	1,414,921	1,781,603
Current Tax for the Year	58,691,033	142,736,852
Payment During the Year - Settlement of Previous Year Liabili	-	(1,781,603)
- Self Assessment Payments	-	(2,000,000)
Set off with Tax Credits - ESC	-	(3,325,782)
- WHT	-	(15,793)
- Notional Tax	-	-
Adjustment on (Under) / Over Provision in Previous Year	-	-
Balance as at 31 December	60,105,954	137,395,277
27 Provisions and Accrued Expenses		
Provision for Legal Claims	195,300	195,300
Accrued Expenses	19,265,460	20,469,928
	19,460,760	20,665,228

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

28 Revenue

	2013	2012
Land Auction -Crown Land	7,672,714	-
Land Auction -LRC	15,114,475	275,388,480
Service and Appeal License Fees	763,440	829,450
Gemming License Fees	37,148,274	31,176,659
Dealers License Fees	30,364,822	24,667,610
Service Fees for Gifts and Samples	222,000	283,078
Gem and Jewellery Export Service Fee	96,606,783	95,763,490
Lapidary License Fees	207,800	223,290
Service fee - Geuda Export	3,438,550	982,807
LDO Land / Mineral Tax	4,621,500	4,663,800
Income from Fines	11,862,249	13,430,708
Gem Auction Permits	638,200	380,200
Gem Testing Charges	7,310,998	5,592,666
Income from Assay Office	4,014,743	4,506,246
License copying Charges	98,200	160,500
Service Fee - Katunayaka Diamond Center	10,224,552	13,245,734
Income from Gem Parcel Clearing	1,410,000	1,054,735
Foreign Currency Acceptance Permit	293,321	301,925
Environmental Protection	(452,407)	335,000
BACO Service Charges	25,185,500	15,906,100
Inspection Charges	67,172,600	31,170,875
Colour and 3D Cards	1,977,287	1,256,018
Sale of Gem	39,697,648	3,644,185
Forfeited Gemming	5,102,250	5,245,000
	370,695,500	530,208,556

29 Other Income

Miscellaneous Income	1,664,792	3,887,098
W.T.C and Rathnapura Booth	20,385,819	17,868,620
Sales of Books	(1,925)	(1,551)
Dividends	1,351,171	838,432
Rental Income	1,194,579	221,000
Proceed of Auctioned Items	1,409,522	19,003
Profit on Disposals of Fixed Assets	103,034	10,976,843
Income from Insurance Agencies	342,866	267,009
Sale of Jewellery	183,412	114,975
Ordinary Membership fee- WTC	96,906	-
	26,730,178	34,191,429

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
30 Administration Expenses		
Subscription	290,748	814,385
Entertainment (Local)	486,853	512,225
Telephone Charges	4,208,361	4,926,368
Postage and Stamps	992,058	814,552
Internet Charges	247,427	233,906
Telex and Fax Charges	74,921	71,531
Expenses of Board Members	620,905	468,750
Rent	3,520,511	2,480,539
Electricity	9,397,814	8,066,464
Rates and Taxes	919,390	927,157
Newspapers and Periodicals	92,016	120,140
Water tax and Charges	957,329	859,783
Advertising	853,070	255,263
Transport	104,214	194,995
Insurance	2,370,246	2,082,460
Legal Fees	3,668,733	606,339
Audit Fees for the Year	500,000	354,000
Over Provision of Audit fees in Previous Years	-	-
Survey Fees	370,002	59,500
Management Consultation	412,100	50,170
Maintenance of Building	4,246,674	3,784,346
Maintenance of Equipments	1,909,240	1,380,407
Security Services	2,459,209	2,568,134
Seminars and Training (Local)	912,422	701,727
Raid Expenses	328,977	536,628
General Auction Expenses	3,056,022	9,398,295
Donation	1,977,800	2,657,000
Consumable Assets	350,225	68,025
Office Supplies	1,530,931	2,148,232
Amortization of Right-to-use Land	2,364	2,364
Printing and Stationery	3,146,415	2,126,749
Laboratory Supplies	800,927	85,000
Environmental Expenses	7,183,612	1,277,517
Depreciation	25,259,064	13,093,088
Amortization of Intangible Assets	208,875	376,375
Rent W.T.C	15,844,811	14,482,199
Electricity Paid W.T.C	1,430,385	1,576,366
Legal Fees W.T.C	(137,379)	-
40 th Anniversary Expenses	-	-
Maintenance of Motor Vehicle	4,213,686	2,001,638
Oil and Fuel	8,532,071	7,066,448
Tyres and Tube	1,254,082	587,342
License and Insurance Motor Vehicle	1,316,336	1,765,808
Parking Charges	1,425	33,000
Vehicle Insurance Compensation	(455,201)	(183,060)
General Expenses	300,415	56,836
Project Expenses	3,014,321	1,053,597

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
Provision for Impairment of Deposits & Advances	-	76,500
Provision for Legal Claims	3,400,000	195,300
Bank Charges	224,869	228,070
Gem Land Rehabilitation Expenses	-	-
Unclaimed NBT	823,428	818,324
Bad Debts	1,404,560	-
Provision for Impairment of Property, Plant & Equipment	1,952,934	2,934,756
Written-off / (Back) Account	-	(100,988)
	126,580,200	96,694,548
31 Personnel Expenses		
Salaries and Allowances	66,368,517	64,184,692
Acting Allowances / Risk Allowances	505,234	657,002
Non Subject to E.P.F Salaries	8,873,808	8,916,922
Employees Provident Fund	11,091,742	10,476,487
Employees Trust Fund	2,134,731	2,052,685
Overtime	3,530,029	2,800,118
Payment for Working on Holidays	179,213	429,628
Awards (Gold Medals)	-	399,065
Leave Bonus	3,907,869	3,821,351
Interest Payed on Staff Housing Loans	623,826	339,988
Employee Incentives	7,195,008	7,031,445
Gratuity	8,115,151	(115,661)
Travelling (Local)	2,104,513	2,162,098
Uniforms for Staff	222,168	451,321
Staff Welfare	5,528,905	4,404,190
Labour Compensation	246,300	100,000
Medical Fees	4,216,211	4,500,000
Medical Fund	-	-
Transport Allowances	5,228,000	3,585,250
	130,071,227	116,196,580
32 Promotional Expenses		
Travelling - Overseas	-	2,307,720
Exhibition Expenses- Local	14,049,238	25,296,665
Exhibition Expenses- Foreign	10,173,420	4,001,221
Publicity - Local	4,858,957	5,480,298
Publicity - Foreign	-	-
Other	1,726,131	1,312,072
Written off of Irrecoverable Balances	-	9,786,538
Under Provision of Expenses	-	-
	30,807,746	48,184,513
33 Net Finance Income		
Interest Income		
Interest on Fixed Deposits and Treasury Bills	109,662,052	47,138,919
Interest on Staff Loan	479,945	489,228
	110,141,997	47,628,147
Interest Expenses		
Finance cost on Liability to Make Lease Payments	(24,500)	(24,190)
	110,117,497	47,603,957

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013	2012
34. Income Tax Expenses		
Current Tax Expense (Note 34.1)	58,691,033	142,736,852
Adjustment on (Under) / Over Provision in Previous Year		-
Deferred Tax Charge / (Reversal) (Note 6)	2,230,123	23,073,888
	60,921,156	165,810,740

34.1 Reconciliation Between the Current Tax Expense and the Product of Accounting Profit

Accounting Profit Before Taxation	120,084,001	350,928,300
Aggregated Disallowable Items	146,720,857	44,667,653
Aggregated Allowable Items	(26,491,622)	(32,435,041)
Income from Other Sources	(143,825,087)	(78,053,179)
Profit / (Loss) from Trade or Business	96,488,149	285,107,733
Other Income Liable for Tax - Interest Income	141,563,392	65,717,767
Total Statutory Income	238,051,541	350,825,500
Qualifying Payment	(101,525,000)	(2,657,000)
Tax Losses Utilized	-	(86,240,991)
Assessable Income / Taxable Income	136,526,541	261,927,509
Tax Charged at Statutory Tax Rate of 28%	38,227,431	73,339,703
Tax on Gross Dividend	20,463,602	69,397,149
Current Tax on Ordinary Activities for the Year	58,691,033	142,736,852
Tax Losses		
Loss Brought Forward	-	86,240,991
Loss Incurred	-	-
Loss Utilized	-	(86,240,991)
Loss Carried forward	-	-

35. Capital and Other Commitments

There were no material capital expenditure or other financial commitments approved by the Board of Directors as at the reporting period end.

36. Events Occurring after Reporting Period

There were no events occurred, which required adjustments or disclosure in these financial statements between the 31 December reporting date and the date of authorization.

37. Contingent liabilities

The Authority has contingent liabilities in respect of legal claims arising in the ordinary course of business. Unless recognized as a provision (Note 27), management considers these claims to be unjustified and possibility of an outflow of resources for their settlement is remote. This evaluation is consistent with legal advices of the Authority's legal division.

38. Related Party Disclosures

The Authority's related parties includes Treasury of Sri Lanka, Government related institutions, State owned enterprises and key management personnel.

NATIONAL GEM & JEWELLERY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Lanka Gemological Laboratory (PVT) Ltd was established with the Sri Lanka Gem & Jewellery Association out of the funds collected from Gem & Jewellery exporters and the balance in the fund as at 31st December 2013 amounts to Rs. 116,297,121/-.

38.1 Transactions with Key Management Personnel

According to the Sri Lanka Accounting Standards LKAS.24 “Related Party disclosures” key Management personnel are those having responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the Board of Directors has been classified as key management personnel.

Transactions with Key Management Personnel are given below.	2013	2012
Remuneration and Other Short-Term Employee Benefits	2,011,950	2,011,950
Post Employment Benefits	20,056	20,056

38.2 Related Party Transactions

Details of significant related party transactions that Authority carries out are as follows:

Related Party	Nature of Transactions for the Reporting Period	Transaction Value	Balance (Due to) / Due from
State-Owned Enterprises	Investment in Fixed Deposits and Treasury Bills	876,781,011	-
	Withdrawal of Fixed Deposits and Treasury Bills	34,545,451	842,235,560
	Investment in REPO	83,454,600	-
	Withdrawal of REPO	41,219,753	42,234,847
Other Government Related Entities	Investment in Shares		1,000,000



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கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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எனது இல. }
My No. }

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உமது இல. }
Your No. }

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திகதி }
Date }

03 September 2014

Chairman,
National Gem and Jewellery Authority.

Report of the Auditor General on the Financial Statements of the National Gem and Jewellery Authority for the year ended 31 December 2013 in terms of the Section 14(2)(c) of the Finance Act, No. 38 of 1971

The audit of financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive statement of income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21(1) of the National Gem and Jewellery Authority Act, No. 50 of 1993. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Authority on 24 April 2014.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

අංක 306/72, පොල්දඬු පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

+94-11-2887028-34

+94-11-2887223

oaggov@sltnet.lk

www.auditorgeneral.gov.lk



1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAT 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basic for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Gem and Jewellery Authority as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



2.2 Comments on Financial Statements

2.2.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with the following Sri Lanka Accounting Standards were observed during the course of audit.

Reference to Sri Lanka Accounting Standards	Non-compliance
(a) Sri Lanka Accounting Standard 7	(i) Even though the tax paid in the year under review amounted to Rs.135,980,365 , that had been shown as Rs.73,880,544 in the cash flow statement. (ii) An expenditure of Rs.12,141,003 had been incurred in the year under review for the acquisition of assets while an adjustment of Rs.29,072,500 had been made to the assets. A sum of Rs.41,213,503 which included that adjustment had been shown as investment cash flows in the cash flow statement. (iii) Even though the total dividends received in cash in the year under review amounted to Rs.901,934 , that had been shown as Rs.811,171 in the cash flow statement. (iv) Even though cash received from the disposal of assets in the year under review amounted to Rs.130,700 , that had been shown as Rs.934,608 by adding the adjustments of Rs.449,500 made to the asset.



(v) Even though a provision of Rs.1,952,934 had been made in the year under review for the impairment of assets that had been shown as Rs.37,001,579 in the cash flow statement.

- | | |
|--|---|
| (b) Sri Lanka Accounting Standard 16 | The fair value of 12 motor vehicles valued at Rs.31,300,527 purchased in the years 2005, 2006, 2007 and 2008 of which the written down value had been zero, had not been shown in the books, whereas the idle ornament equipment, machinery and geuda equipment costing Rs.8,275,635 of which book value had been zero, had been included under the non-current assets. |
| (c) Sri Lanka Accounting Standards 32 and 39 | The interest on fixed deposits amounting to Rs.216,381,558 and Rs.625,854,003 invested with the objective of being held till maturity had not been brought to account under the effective interest rate. |

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The provision for depreciation on 7 motor vehicle costing Rs.43,140,179 purchased in the preceding year had not been made in that year and as such the balance of the provision for Depreciation Account of the year under review had been understated by a sum of Rs.7,958,059.



- (b) A sum of Rs.540,937 payable to the suppliers of jewellery had been credited to the Jewellery Development Account instead of being credited to the respective Creditors Account thus overstating the balance of that account while the Creditors Account had been understated by that amount.
- (c) The sum of Rs.542,250 paid at the acquisition of two motor vehicles purchased on lease purchase system only had been brought to account and as such the total cost of those motor vehicles had not been computed and brought to account.

2.2.3 Accounts Payable

Sums of Rs.23,148,095 and Rs.2,568,825 payable in connection with land auctions and 10 per cent retention money respectively had been brought forward over a period of 05 years without being settled.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items in the financial statements had not been furnished for audit.

Item	Value	Evidence not made available
-----	-----	-----
	Rs.	-----
Land at Belideniya	889,000	Title Deed
Land at Naula	538,800	Title Deed
Contract on Modernisation of Ratnadeepa Showroom	2,724,037	Contract Agreement, Bills and Work Completion Certificates



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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations
and Management Decisions

Non-compliance

(a) Establishments Code of the
Democratic Socialist Republic of
Sri Lanka

Chapter II Section 5.2.6

Even though a Selection Board including an officer of the Ministry should be appointed for recruitments and promotions without doing so promotions had been made on the private commendations given by the Board of Governors.

(b) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

Financial Regulation 142(2)

In performing a service for a fee or charge receivable to the Government or the issue of licence and permits, such service should not be performed until the recovery is received and realized. Nevertheless, the service charges amounting to Rs.1,015,158 recoverable on the export of gems and jewellery recoverable on the value thereof had been recovered after delays ranging from 02 days to 16 days.



Financial Regulation 371(b)

Even though the advances granted for any purpose should not exceeded Rs.20,000 , advances exceeding that limit had been granted.

- (c) Procurement Guidelines No. 8 of
25 January 2006
Guideline 2.7.5

Even though a representative of the line Ministry should be appointed to the Departmental Procurement Committee, it had not been so done in connection with the contract for the modernization of the Ratnadeepa showroom fuel at Rs.2,383,533.

Guideline 2.8.4

A member from the Ministry or from an external institution had not been appointed to the Technical Evaluation Committee appointed for the above contract.

- (d) Public Enterprises Circular No. 39
of 09 October 2006

The Chairman, the Director General and the Director (Land, Mining and Environment) had obtained 2,291 litres of fuel valued at Rs.364,600 and 2,476 litres of level fuel at Rs.400,007 and 3,282 litres of fuel valued at Rs.396,856 respectively during the year under review without obtaining prior approval.

- (e) Public Administration Circular No.
22/99 of 08 October 1999

Official Motor vehicles had been allocated to 08 senior officers of the Authority not entitled to use official motor vehicles for private purposes without obtaining the approval of the Secretary to the Ministry.



- (f) Letter No. DMS/E2/33/7/2013/3 dated 03 November 2011 of the Department of Management Services
- Even though the creation of new posts in addition to the approved staff is not allowed, promotions had been made to two posts of Valuer / Gemmology though only one post had been approved.
- (g) Letter of the Director General of the National Gem and Jewellery Authority dated 01 December 2011.
- Even though a period of 06 months had elapsed after the export of the stocks of gems valued at Rs.251,265,020 for foreign exhibitions, action had not been taken for the recovery of the service charge on those stocks of gems amounting to Rs.807,467.

2.4 Transactions not supported by Adequate Evidence

The following observations are made.

- (a) A sum of Rs.340,504 exceeding the value of the contract for the modernization of the Ratnadepa Showroom situated in the World Trade Centre amounting to Rs.2,383,533 had been paid to the contractor without obtaining the approval of the Procurement Committee.
- (b) A sum of Rs.2,456,515 out of the Jewellery Development fund created by utilizing the sum of Rs.5,000 charged for the annual renewal of licences of the Jewellery Shops had been paid for other purposes.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2013 amounted to a pre-tax net-profit of Rs.120,084,002 as compared with the corresponding net profit of Rs.350,928,300 for the preceding year and as compared with the preceding year, a deterioration of Rs.230,844,298 in the financial result was indicated. The decrease of income by a sum of Rs.104,460,767 and the increase of expenditure by a sum of Rs.126,383,532 had impacted the deterioration in the financial results. The land auction income included in the income as compared with the preceding year had decreased by Rs.260,274,001 in the year under review.

3.2 Profitability

	2009	2010	2011	2012	2013
	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.
Income	219,443,811	228,963,191	250,300,467	612,003,941	507,543,175
Expenditure	230,941,998	261,929,677	222,488,066	261,075,641	387,459,173
Pre-tax Profit / (Loss)	<u>(11,498,187)</u>	<u>(32,966,486)</u>	<u>27,812,401</u>	<u>350,928,300</u>	<u>120,084,002</u>

It was observed that the profitability of the Authority had been subjected to heavy fluctuations during the several preceding years.

3.3 Analytical Financial Review

The following observations are made.

- (a) The total income of the Authority for the year under review as compared with the preceding year had decreased by a sum of Rs.104,460,767 or 17 per cent.
- (b) The total expenditure of the Authority for the year under review as compared with the preceding year had increased by a sum of Rs.126,383,532 or 48 per cent.



- (c) The net cash flow generated from the operating activities in the year under review amounted to Rs.90,541,060 and that amounted to Rs.404,192,548 in the preceding year.
- (d) Even through the equity to operating profit ratio amounted to 33.5 per cent in the preceding year, that had been 1.02 per cent in the year under review, thus indicating the considerable deterioration.

3.4 Legal Action instituted against the Institution and by the Institution

The following observations are made.

- (a) Seven external individuals had filed seven cases in the Courts against the Authority claiming compensation amounting to Rs.3,400,000.
- (b) The Authority had filed a case in the Courts against an external individual for a fraud of Government money for the recovery of a sum of Rs.2,964,625 and the losses related thereto.

3.5 Abnormal Increases in Expenditure

An abnormal increase in the following expenditure as compared with the preceding year was observed.

Particulars	2013	2012	Increase	Percentage of Increase	Observations
-----	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.		
Maintenance Expenditure on Motor Vehicles	4,213,686	2,001,638	2,212,048	110	Expenditure on servicing motor vehicles had increased.
Legal Expenses	3,668,733	606,339	3,062,394	505	Provision had been made for expected legal fees.



Allocations for					Allocations had been made
Compensation	3,400,000	195,300	3,204,700	1,641	for various cases.
Provision for					New motor vehicles had been
Depreciation	25,259,064	13,093,088	12,165,976	93	purchased and depreciated.
Transport					Allowance had been
Allowances	5,228,000	3,585,250	1,642,750	46	increased.
Gratuity	8,115,151	(115,661)	8,230,812	7,166	A new accounting policy had
					been introduced for the
					adjustment of gratuity.

4. Operating Performance

4.1 Performance

4.1.1 Auction of Gemming Lands

The following observations are made.

- (a) Action had not been taken up to date to obtain the release of the land allocated to the Kuruwita Nalanda Ellawala Industrial Town for gem mining.
- (b) Even though the gemming lands of Barawardhana Oya and Hasalaka Oya had been auctioned, several buyers had paid advances on the bid amounts, action had not been taken for the recovery of the full amount and issue licences for gem mining.

4.1.2 Export of Gem and Jewellery

(a) Special Project for Export of Cut and Polished Gems

The following observations are made.

- (i) Thirty three vouchers relating to the gem containers for export of gems without inspection on the payment of US\$ 1,500 had been issued and the Customs at the Airport should cancel those vouchers and return to the Authority along with the invoices relating thereto. Nevertheless, action had not been taken recall 10 vouchers. As such the Authority could not furnish the accurate statistics on the value of gem exports to audit.



- (ii) In terms of Section 14(1)(f) of the National Gem and Jewellery Act, No. 50 of 1993, prevention of illegal export of gems from Sri Lanka is one of the key functions of the Authority. Nevertheless, that objective had not been achieved as the Valuers of the Authority do not examine and value the gems exported under the new methodology.

(b) Service Fee Waiver Facility for the Export of Gems for Foreign Exhibitions

The following observations are made.

- (i) Even though the unsold gems of high value exported for foreign exhibitions are brought back, the Authority had not followed methodologies for photographing and measurement of gems in order to ensure that the same gems carried to foreign countries are brought back.
- (ii) The approval for export and the laboratory test reports obtained abroad had not been furnished in connection with gems with export value of Rs.6,096,256 exported under the Service Fee Waiver Facility for laboratory tests abroad.

(c) Grant of Trade Licences for Export of Gems

The following observations are made.

- (i) In the issue of trade licences for the export of gems fees are recovered based on the value of the stock of gems and the owners of licences with lesser values, renew their licences temporarily for a higher value. But a methodology for the examination of such renewals had not been formulated.
- (ii) Despite the availability of a system for the payment of Rs.1,000 and obtain a trade licence under the same day service in accordance with the Citizens Charter of the Authority, instead of the new trade licence that should be obtained for exceeding the limit of the stock, permission for export had been granted based on invoice for the payment of the fee.



4.1.3 Lease of Trade Stalls of the World Trade Centre

An area of 8,700 square feet of the World Trade Centre had been obtained on rent basis and trade stalls had been given on rent basis to persons engaged in the gem and gem embossing industry.

The following observations are made.

- (a) Out of the trade stalls given on rent, the Authority had failed to recover the arrears of rent amounting to Rs.1,404,560 due from 04 trade stalls for the years 2008, 2009 and 2010.
- (b) Even though a Legal Division consisting of 04 officers including 02 Lawyers had been established in the Authority, out of the sum of Rs.177,944 recovered as the Lawyers' fees for signing the rent agreements for the years 2012/2013, a sum of Rs.88,972 representing 50 per cent had been paid to the Legal Officer as the notarial fees. A difference in the name used for that purpose and the name used for obtaining the salaries from the Authority was observed.
- (c) Lawyer's fees amounting to Rs.54,329 had been recovered from 3 trade stalls for which rent agreements had not been signed. The actual rent of 2 trade stalls had been understated by a sum of Rs.305,048 in the rent agreements and as such the stamp duty amounting to Rs.3,050 had been under-recovered.
- (d) Rent agreements for the year 2013/2014 had not been signed for 11 trade stalls while the rent agreements for the balance 26 trade stalls had been signed in the private office of the Legal Officer using the official seal of the Authority.
- (e) Even though the Legal Officer of the Authority is entitled to write deeds only for lands within the area of authority of the High Court of Avissawella, she had signed the rent agreements relating to lands and properties situated in the area of authority of the High Court of Colombo.

4.2 Management Inefficiencies

The following observations are made.

- (a) Even though a double cab motor vehicle used by the Ministry of Environment had met with an accident and the loss had not been assessed and recovered from the parties responsible.
- (b) A sum of Rs.92,948,578 had been paid to a private institution in the year 2009 for the construction of a laboratory. That laboratory had not been established even by March 2014. That institution had earned interest amounting to Rs.39,079,371 by investing the money from the year 2009 up to the end of the year under review and the Authority had been deprived of that interest income.
- (c) A sum of Rs.2,995,700 had been spent by the end of the year under review on the Ratnadepa Showroom maintained on 575 square feet of the World Trade Centre. Even though it had been commenced with the objective of encouraging the small and medium scale industrialists that objective had not been achieved.

4.3 Idle and Underutilised Assets

The following observations are made.

- (a) The equipment valued at Rs.4,352,949 purchased in the year under review for the establishment of a laboratory in the Galle area had been idling and action had not been taken even by March 2014 for the establishment of the laboratory.
- (b) Five photocopiers valued at Rs.443,000 purchased in the years 2002, 2003 and 2004 and handed over to the stores in the years 2011 and 2012 remained idle even by the end of March 2014.



4.4. Staff Administrative

The following observations are made.

- (a) The approved staff as at 31 December 2013 stood at 220 and the actual staff stood at 181 thus resulting in 39 vacancies. Out of the vacancies, 14 related to staff grades and 24 related to the non-staff grades. Nevertheless, 55 employees had been recruited on contract basis.
- (b) Four officers who had not-fulfilled the full qualifications according to the Scheme of Recruitment had been confirmed in service.

4.5 Identified Losses

Sixty two gem stones of export value of Rs.39,694,672 had been exported on the payment of Rs.1,000 as laboratory test fees. Out of those gem stones, 22 had been sold at a foreign exhibition. Even though the export had not been made on the basis of Service Fee Waiver Facility by paying Rs.10,000 as handling charges, a sum of Rs.45,885 only had been recovered as service charge on the items sold. The Authority had incurred a loss of Rs.152,588 as the recoverable service charge of Rs.198,473 had not been recovered.

4.6 Apparent Irregularities

Recruitment to the post of Human Resource Manager had been made by specifying the salary at 8 salary steps ahead and as such overpayments of salary amounting to Rs.79,200 and holiday allowance and incentives amounting to Rs.36,844 had been made in the year under review.

4.7 Motor Vehicles Utilisation

The following observations are made.

- (a) The fleet of 23 motor vehicles of the Authority in the preceding year remained even by the end of the year under review. Particulars of the utilization of the motor vehicles are given below.



Particulars	2013	2012
-----	-----	-----
	Rs.	Rs.
Fuel Consumption	8,532,071	7,066,448
Tyres and Tubes Fitted	1,254,082	587,342
Maintenance Expenses	4,213,686	2,001,636
Licenses and Insurance Expenses	1,316,336	1,765,808
	-----	-----
	15,316,175	11,421,234
	=====	=====

Accordingly, as compared with the expenditure for the year 2012, the expenditure on motor vehicles had increased by a sum of Rs.3,894,941 , that is 34 per cent.

- (b) The motor car used by the Chairman had run 23,415 kilometres from February 2013 to February 2014 and a sum of Rs.328,530 had been spent for the purchase of 10 tyres for that purpose.

4.8 Unsettled Audit Paragraphs

The former Chairman and the former Director General of the Authority had used additional fuel valued at Rs.728,501 and Rs.276,488 respectively in the year 2012 without approval and action had not been taken for the recovery of the money from those officers.

4.9 Build up of a Fund for the Provision for Employees' Gratuity

Even though a provision of Rs.23,995,857 had been made in terms of the provisions in the Payment of Gratuity Act, an arrangement for the supply of funds to settle the future liabilities had not been made.



5. Accountability and Good Governance

5.1 Corporate Plan

Even though the following activities set out in Section 14 of the National Gem and Jewellery Authority Act, No. 50 of 1993 had been included in the Corporate Plan for implementation, no action had been taken for the implementation of those activities.

Section -----	Particulars -----
14(d)	To undertake training of individuals and improvement specially in heat treatment and gem cutting for the improvement of the industry.
14(e)	To take necessary courses of action to create confidence of the gem and jewellery industry among the expected future buyers.
14(f)	Prevention of illegal removal of gem stones from Sri Lanka and illegal gemmining.
14(m)	Improvement of the gem and jewellery industry in Sri Lanka and the creation of necessary Liaison with the Government Departments.

5.2 Action Plan

The physical progress of the Authority according to the Action Plan for the year 2013 as compared with the financial information is given below.

Targeted Activity -----	Actual Performance -----
(a) Formulation of a National Policy of the Gem and Jewellery Industry	Even though this activity had been identified in the Corporate Plan for the years 2009 to 2013 for finalization of implementation in the years 2010/2011 the Authority had failed to implement it even during the year under review.



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|---|---|
| (b) Conduct a Census of the Gem and Jewellery Industry | According to the Corporate Plan this should have been completed in the years 2009/2010. But it had not been conducted even in the year under review. |
| (c) To obtain legal validity for the analysis of the precious metals of all kinds of jewellery and stamping. | This has to be spread throuout the entire Island. Even though a sum of Rs.85 million had been allocated for the establishment of a laboratory in the city of Galle, it had not been implemented in the year under review. |
| (d) Reducing the export of Geuda to "O" | Even though provision of Rs.5 million had been made in the year under review for providing facilities for heat treatment and training and introducing cost effective systems, no progress of that had been achieved. |
| (e) Establishment of a Special Task Force for the Cessation of illegal gem mining | This had not been done up to the end of the year under review. |
| (f) To increase the export value of Gems and Jewellery | Even though 08 foreign exhibitions had been planned for the year under review and allocation of Rs.17.8 million had been made for the purpose, the progress had been at 50 per cent level. |
| (g) Creation of Human Resources commensurate with the demand of the Gem and Jewellery Industry to achieve good competitiveness and resources. | Action had not been taken to fill the following vacancies which are directly committed to the Gem and Jewellery Industry.
Assistant Director (Valuation / Gemmology) |



Development Assistant
Environment Assistant
Export Services Officer
Valuer / Gemmology Assistant
Laboratory Technicians
Assistant Technologist

- | | |
|---|--|
| (h) Creation of Social Responsibility through the creation of a detailed welfare system | A welfare system for the gem mining community had not been created up to the end of the year under review. |
| (i) Establishment of an Advanced Laboratory for the examination and certification of gems | Not done up to the end of the year under review. |

5.3 Procurement Plan

A detailed Procurement Plan in terms of Section 4.2.1 of the Procurement Guidelines with separate identification of the requirements of each Division and specifying the civil works, goods and other services that should be procured during the respective periods had not been prepared.

5.4 Budgetary Control

Significant variances were observed between the budgeted information and the actual information thus indicating that the budget had not been made use of as an effective instrument of management control.

5.5 Tabling of Annual Reports in Parliament

The Annual Report for the year 2012 had not been tabled in Parliament even by May 2014.



6. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority by the detailed report issued in terms of Section 13(7)(a) of the Finance Act, No. 38 of 1971. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Maintenance of Motor Vehicles
- (c) Supervision of the Conditions of Gemming Licences
- (d) Conducting Auctions of Gem Lands
- (e) Human Resources Management
- (f) Grant of Advances

H.A.S.Samaraweera
Auditor General