

# National Gem and Jewellery Authority



## ANNUAL REPORT

2014

Hon. Minister of Mahaweli Development Environment  
Ministry of Mahaweli Development Environment  
82, "Sampathpaya"  
Rajamalwatte Road  
Battarammulla

Hon. Minister,

**ANNUAL REPORT FOR THE YEAR 2014**

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 2014.
2. Balance Sheet as at 31<sup>st</sup> December 2014 and the Profit & Loss Account for the year ended 31<sup>st</sup> December 2014 of the Authority duly audited by the Auditor General.
3. The Report of the Auditor General.

Thanking You  
Yours Faithfully

**Asanka Welagedara**  
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 2014

		<b>Date Joined</b>	<b>Date Resigned</b>
1. Mr. Amitha Gamage	Chairman	17.04.2013	
2. Mr.T.K.N.C. Tiyyabarawaththa	Member	17.04.2013	
3. Mr. D M Rupasinghe	Member	25.07.2014	
4. Mr. A.K. Senavirathne	Member	30.04.2013	
5. Ms. Chandra Ekanayake	Member	30.04.2013	
6. Mr. Jagath Wijeweera	Member	29.01.2014	
7. Mr. T.M. Sirisoma	Member	17.04.2013	
8. Mr. Arnil Samoon	Member	17.04.2013	
9. Mr. R De S. Munasinghe	Member	06.05.2013	
10. Mr. S.M.N. Lalith Senanayake	Member	06.05.2013	
11. Mr. Bandula Egodage	Member	26.06.2013	
12. Mr. Aruna Lekamge	Member	17.04.2013	21.07.2014
13. Mr. P.H.O. Chandrawansa	Member	30.04.2013	10.06.2014
14. Dr. W.L.D.R.A. Karunathilaka	Member	30.04.2013	14.01.2014

# **Administration Report of the National Gem and Jewellery Authority**

## **For the year 2014 Under 14(1) of the Finance Act No.38 of 1971**

- 01.** The year 2014 marks the 20<sup>th</sup> year of operations of the National Gem and Jewellery Authority. Its activities for the year under review were conducted through the Head Office in Ratnapura and office in Colombo & Regional Units in Ratnapura, 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.97.964 (Mn) and at the end of the year It was Rs. 43.548(Mn). Held to Maturity Investments (Treasury bills ) at the beginning of the year was Rs.216.381 (Mn) and at the year end it was Rs. 482.640(Mn).

Other Financial Assets at the beginning of the year was Rs.639.376 (Mn) and at the year end it was Rs. 754.132 (Mn).

#### 3.2 Profitability :

	2009 Rs. Mn	2010 Rs. Mn	2011 Rs. Mn	2012 Rs. Mn	2013 Rs. Mn	2014 Rs. Mn
Total Income	219.443	228.962	250.300	612.004	507.542	679.815
Total Expenditure	230.942	261.929	222.488	261.076	387.458	364.873
Profit (Before Tax)	<b>(11.498)</b>	<b>(32.967)</b>	<b>27.812</b>	<b>350.928</b>	<b>120.084</b>	<b>314.942</b>

### 04. Human Resources :

The staff of the Authority reached 278 at the end of 2014 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:

	2009	2010	2011	2012	2013	2014
Gemming Licenses	3,970	4,061	4,687	5,956	6,565	5928
Gem Dealers Licenses	4,036	4,195	4,422	4,382	4,429	4714
Lapidary Licenses	174	168	179	177	192	199
Gem Auction Licenses	217	262	277	364	624	578
<b>Total Licenses</b>	<b>8,357</b>	<b>8,686</b>	<b>9,565</b>	<b>10,879</b>	<b>11,810</b>	<b>11,419</b>

### 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 amounts Rs. 12.182 million. The Authority had taken action to close the abandoned gem pits and rehabilitate damaged riverbanks:

### 07. Special Gem Mining Projects.

During the year five special gem mining projects were carried out to extract gem bearing layers in sensitive areas which cannot be carried through gem auctions. Most of these locations victims to illicit gem mining and the only sustainable solution is to carry out special projects.

Five such projects were Elawala Ganga, Balangoda Weliharanawa, Seethawaka Phase I, Haraniyawaka Kalu Ganga and Seethawaka Phase II. From these projects an income of Rs. 228.4 million was realised during 2014.

## **08. Service & Other Development Activities :**

### **8.1 Export & Export Promotion Activities**

1. Sponsored and organized “Sri Lanka Pavilion” at the selected International Trade Fairs & Exhibitions.
  - i. HKTDC Hong Kong International Diamond, Gems & Pearl Show – 3 – 7 March
  - ii. Jewellery Shanghai Show - 8 – 12 May
  - iii. The JCK Las Vegas Show - 30 May – 2 June
  - iv. Singapore International Jewellery Show – 3 – 6 July
  - v. International Jewellery London – 31 August – 2 September
  - vi. Hong Kong International Gem Show – 15 – 19 September
  - vii. China International Gold, Jewellery & Gem Fair – 6 – 9 November
  - viii. China International Jewellery Show – 13 – 17 November
2. Organized Gem and Jewellery Sector participation at the following events,
  - i. South Asian Commodity Fair organized by Sri Lanka Export Development Board
  - ii. Sri Lankan Promotions in Shanghai organized by Sri Lanka Tourism
3. Sponsored and organized NGJA Pavilion at the Local Trade Fairs and Exhibitions
  - i. Senkadagala Soorya Udanaya – 4 – 7 April
  - ii. “Intrad – Expo & Arogya 2014” organized by National Chamber of Commerce
  - iii. 24<sup>th</sup> Sri Lanka International Gem and Jewellery Show – “Facets Sri Lanka 2014” 4 – 7 September
  - iv. Golden Flame Award 2014 – 16 – 17 September
  - v. Alaupura Nawadoya 3 – 7 October
  - vi. BAQ Conference & EST Forum in Asia – 19 – 21 November
  - vii. “Jewels 2014” organized by Gemmologists Association of Sri Lanka 19 – 22 December
4. 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.
5. 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.
6. 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.
7. Administration of an exclusive website of NGJA **www.ngja.gov.lk**
8. Facilitation and promotion of “ Sri Lanka Gem and Jewellery Exchange ” being the only government sponsored gem and jewellery shopping complex in Sri Lanka.
9. Offered Jewellery Manufacturing tools and equipments for Small and Medium Scale Jewellery Manufacturers.
10. Organized and Conducted Awareness Programmes for Small and Medium Entrepreneurs on New Trends and Standards in Jewellery industry.
  - a. Modern Techniques in Jewellery Designing i - Liyanwela , Munwatte
  - b. Modern Techniques in Jewellery Designing - Jaffna
  - c. Modern Techniques in Jewellery Designing - Vavuniya
  - d. Gem Stone Settings Programme ii- Liyanwela , Munwatte
  - e. Gem Stone Settings Programme -Getabe Kandy

11. Management and operation of “Rathnadeepa” Showroom and sales outlet to promote and market Jewellery articles produced by SME Jewellery Manufacturers in Sri Lanka.
12. Provide assistance to import Raw Materials, tool, machinery & Equipment used in the gem and jewellery industry on a concessionary duty basis.
13. Facilitate visiting government and private sector delegations on their official or business mission towards the Gems and Jewellery.

## 09. 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 2014 under review:

	2009 Rs. Mn	2010 Rs. Mn	2011 Rs. Mn	2012 Rs. Mn	2013 Rs. Mn	2014 Rs. Mn
Gem Exports	7,225.8	7,488.6	10,027.6	14,557	14,805	19,014
Gem – NSS Special Project					1,915	3,179
Jewellery Exports	1,522.9	1,490.5	1,732.3	2,444	2,194	2,467
Geuda Exports	107.7	136.5	146.7	225	122	140
Diamond Re-Exports	35,965.96	36,030.1	45,381.1	52,893	37,885	25,633
Diamond Jewellery Exports	417.5	312.5	375.8	324	229	258
<b>Total Exports</b>	<b>45,239.86</b>	<b>45,458.20</b>	<b>57,663.5</b>	<b>70,443</b>	<b>57,210</b>	<b>50,691</b>

**Vajira Narampanawa**  
**Chairman & Chief Executive Officer**  
**National Gem & Jewellery Authority**

*2015-02-27*

## NATIONAL GEM & JEWELLERY AUTHORITY

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

		<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>Rs.</b>	<b>Rs.</b>
Revenue	<b>28</b>	590,723,305	370,695,500
Other Income	<b>29</b>	27,871,684	26,730,178
Administration Expenses	<b>30</b>	(136,149,399)	(126,580,200)
Personnel Expenses	<b>31</b>	(172,334,751)	(130,071,227)
Promotional Expenses	<b>32</b>	(56,388,916)	(30,807,746)
<b>Operating Profit</b>		<b>253,721,923</b>	<b>109,966,504</b>
Net Finance Income	<b>33</b>	<b>61,220,312</b>	110,117,497
<b>Profit After Net Finance Income</b>		<b>314,942,235</b>	<b>220,084,001</b>
<b>Contribution to Consolidated Fund</b>		<b>-</b>	<b>(100,000,000)</b>
<b>Profit Before Tax</b>		<b>314,942,235</b>	<b>120,084,001</b>
Income Tax Expenses	<b>34</b>	(145,347,542)	(60,921,156)
<b>Profit for the Year</b>		<b>169,594,693</b>	<b>59,162,845</b>
Profit for the Year		169,594,693	59,162,845
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>		<b>169,594,693</b>	<b>59,162,845</b>

# NATIONAL GEM & JEWELLERY AUTHORITY

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 Rs.	2013 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant & Equipment	3	236,813,268	227,741,261
Leasehold Land (Right-To-Use Land)	4	28,363	30,727
Intangible Assets	5	148,916	357,792
Other Assets	7	371,939,331	371,939,331
Available-for-Sale (AFS) Financial Assets	8	1,200,010	1,200,000
<b>Total Non-Current Assets</b>		<b>610,129,887</b>	<b>601,269,111</b>
<b>Current Assets</b>			
Inventories	9	4,141,809	2,160,405
Receivables	10	28,905,148	9,396,134
Held-to-Maturity Investment (HTM)	11	482,639,856	216,381,558
Deposits and Advances	12	44,144,872	32,709,520
Employee Loans & Advances	13	14,108,003	13,659,749
Other Financial Assets	14	754,132,625	639,376,488
Cash and Cash Equivalents	15	43,547,995	97,964,396
<b>Total Current Assets</b>		<b>1,371,620,308</b>	<b>1,011,648,249</b>
<b>TOTAL ASSETS</b>		<b>1,981,750,195</b>	<b>1,612,917,360</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity</b>			
Contributed Capital	16	30,000,000	30,000,000
Gem Mining Welfare Fund	17	27,365,928	26,927,498
Jewellery Development Fund	18	37,504,763	29,059,263
Gem Rewards Fund	19	36,033,910	36,511,450
Gems Revaluation Reserve	20	355,074,648	355,074,648
Revaluation Reserve	21	52,945,424	52,945,424
Retained Earnings		615,579,700	440,155,420
<b>Total Equity</b>		<b>1,154,504,374</b>	<b>970,673,703</b>
<b>Non-Current Liabilities</b>			
Retirement Benefits Obligation	22	31,075,157	23,995,857
Deferred Tax Liability	6	16,923,372	18,292,344
Liability to Make Lease Payments - Settlements Fall Due More Than One Year	23.1	10,120	11,680
<b>Total Non-Current Liabilities</b>		<b>48,008,649</b>	<b>42,299,881</b>

**Current Liabilities**

Liability to Make Lease Payments - Settlements Fall Due Within One Year	23.1	2,230	2,230
Payables	24	103,941,946	64,715,858
Gemming Deposits		369,912,429	326,673,784
Deposits and Advances Received	25	106,299,348	96,452,755
Statutory Payable	26	150,054,864	92,638,388
Provisions and Accrued Expenses	27	49,026,356	19,460,760
<b>Total Current Liabilities</b>		<b>779,237,173</b>	<b>599,943,775</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>1,981,750,195</b>	<b>1,612,917,360</b>

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**

.....  
**DIRECTOR FINANCE**

.....  
**DIRECTOR**

.....  
**DIRECTOR**

**NATIONAL GEM & JEWELLERY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014**

**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 in accordance with SLAS prior to 31 December 2011. 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.

## NATIONAL GEM & JEWELLERY AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014

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:

Computer Software	5 Years	20%
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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.

		Rate
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

##### (a) 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)

## NATIONAL GEM & JEWELLERY AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014

#### 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

##### II. 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.

## NATIONAL GEM & JEWELLERY AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014

#### 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

## NATIONAL GEM & JEWELLERY AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014

#### 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 neither 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.

## NATIONAL GEM & JEWELLERY AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014

#### 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.

##### e). Rental Income

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

##### h). Interest Income

Interest income is recognized using the effective interest method.

##### i) Dividend Income

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

##### j). 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.

**NATIONAL GEM & JEWELLERY AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014**

**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. 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 2014

	Contributed Capital	Gem Mining Welfare Fund	Jewellery Development Fund	Gem Rewards Fund	Other Reserve	Gems Revaluation Reserve	Revaluation Reserve	Retained Earnings	Total
<b>Balance as at 01 January 2013</b>	<b>30,000,000</b>	<b>27,227,498</b>	<b>23,657,481</b>	<b>33,302,891</b>	-	<b>355,074,648</b>	<b>52,945,425</b>	<b>383,673,444</b>	<b>905,881,387</b>
Fair Value Adjustment						-			-
Profit for the Year	-	-	-	-	-	-	-	59,162,844	59,162,844
Other Comprehensive Income	-	-	-	-	-	-	-	-	-
<b>Total Comprehensive Income</b>									<b>59,162,844</b>
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								-	-
<b>Balance as at 31 December 2013</b>	<b>30,000,000</b>	<b>26,927,498</b>	<b>29,059,263</b>	<b>36,511,450</b>	-	<b>355,074,648</b>	<b>52,945,425</b>	<b>440,155,420</b>	<b>970,673,704</b>
Fair Value Adjustment	-	-	-	-	-	-	-	-	-
Profit for the Year	-	-	-	-	-	-	-	169,594,693	169,594,693
Other Comprehensive Income	-	-	-	-	-	-	-	-	-
<b>Total Comprehensive Income</b>									<b>169,594,693</b>
Prior Year Adjustment								5,829,587	5,829,587
Contribution to / (Utilization ) for the Year	-	438,430	8,445,500	(477,540)	-	-	-	-	8,406,390
Adjustment on Impairment	-	-	-	-	-	-	-	-	-
<b>Balance as at 31 December 2014</b>	<b>30,000,000</b>	<b>27,365,928</b>	<b>37,504,763</b>	<b>36,033,910</b>	-	<b>355,074,648</b>	<b>52,945,425</b>	<b>615,579,700</b>	<b>1,154,504,373</b>

**NATIONAL GEM & JEWELLERY AUTHORITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014**

	2014	2013
<b>Profit Before Tax</b>	<b>314,942,235</b>	<b>120,084,001</b>
<i>Adjustments for</i>		
Depreciation	27,371,312	25,259,064
Amotisation of Intangible Assets	208,875	208,875
Provision for Retirement Benefit Obligations	8,259,512	8,115,151
Dividends	(540,000)	(1,351,171)
Profit on Disposals of Fixed Assets	-	(103,034)
Interest Income	(61,245,077)	(110,141,997)
Finance cost on Liability to Make Lease Payments	24,765	24,500
Amortization of Right-to-use Land	2,364	2,364
Provision for Impairment of Deposits & Advances	-	-
Bad Debts	-	1,404,560
Provision for Legal Claims	-	3,400,000
Provision for Impairment of Property, Plant & Equipment	-	1,952,934
<b>Operating Profit Before Working Capital Changes</b>	<b>289,023,987</b>	<b>48,855,247</b>
<b>Changes in working Capital</b>		
Inventories	(1,981,404)	(460,804)
Receivables	(19,509,014)	2,914,651
Deposits and Advances	(11,435,352)	(1,018,568)
Prepaid Expenses	-	499,457
Employee Loans & Advances	(448,254)	90,128
Payables	25,438,445	26,543,054
Gemming Deposits	43,238,645	100,625,475
Deposits and Advances Received	9,846,592	24,168,449
Provisions and Accrued Expenses	29,188,337	(1,799,657)
<b>Cash Generated from Operations</b>	<b>363,361,983</b>	<b>200,417,432</b>

Gratuity Paid	(1,180,212)	(2,726,309)
Taxes Paid	(61,318,311)	(135,980,365)
<b>Net Cash from Operating Activities</b>	<b>300,863,461</b>	<b>61,710,758</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of Property, Plant and Equipment	(44,428,902)	(12,141,003)
Proceeds from Disposal of Fixed Assets	-	130,700
Dividend Received	540,000	901,934
Net Investment in Other Financial Assets	(114,756,127)	(94,670,183)
Net Investment in Treasury Bills	(266,259,974)	(24,771,625)
Interest Received	61,245,077	110,141,997
<b>Net Cash from (used in) investing activities</b>	<b>(363,659,927)</b>	<b>(20,408,180)</b>
<b>Cash Flows from Financing Activities</b>		
Utilization of Gem Mining Welfare Fund	438,430	(300,000)
Settlement of Liability to Make Lease Payments	(26,325)	(26,325)
Contribution to Jewellery Development Fund	8,445,500	5,401,785
Contribution to Gem Rewards Fund	(477,540)	3,208,560
<b>Net Cash From (used in) Financing Activities</b>	<b>8,380,065</b>	<b>8,284,020</b>
<b>Net Changes in Cash &amp; Cash Equivalents</b>	<b>(54,416,401)</b>	<b>49,586,598</b>
Cash & cash Equivalents at Beginning of the year	<b>97,964,396</b>	<b>48,377,798</b>
<b>Cash &amp; Cash Equivalents at End of the Year</b>	<b>(Note 15)</b>	<b>43,547,995</b>
		<b>97,964,396</b>

**NATIONAL GEM & JEWELLERY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

Property, Plant & Equipment Cost	As At 01 January 2014	Additions	Disposal	As At 31 December 2014.
<b>Freehold</b>				
Land	37,941,670			37,941,670
Buildings	153,400,267	6,776,699		160,176,966
Fixture & Fittings	13,365,381	790,929		14,156,310
Furniture	11,258,820	1,181,975		12,440,795
Office Equipment	14,567,396	3,371,228		17,938,624
Computer	19,344,213	5,163,285		24,507,498
Laboratory Equipment	20,586,399	3,114,598		23,700,997
Lapidary Equipment	403,475			403,475
Jewellery Equipment	148,200			148,200
Assay Equipment	25,301,671	4,316,362		29,618,033
Machine and Geuda Equipment	8,292,358			8,292,358
Motor Vehicle	83,244,588	19,687,500		102,932,088
Motor Bicycles	100,000			100,000
Bicycles	37,334			37,334
Library Books	6,900		(1,200)	5,700
<b>Leasehold</b>				
Land	159,205	26,325	(26,325)	159,205
	<b>388,157,877</b>	<b>44,428,902</b>	<b>(27,525)</b>	<b>432,559,254</b>

Depreciation	As At 01 January 2014	Charge for the Year		As At 31 December 2014
<b>Freehold</b>				
Buildings	36,315,405	4,095,568		40,410,973
Fixture & Fittings	11,132,337	490,092		11,622,429
Furniture	8,072,239	734,367		8,806,606
Office Equipment	7,798,630	1,353,120		9,151,750
Computer	12,933,338	2,439,496		15,372,834
Laboratory Equipment	9,955,711	1,999,369		11,955,080
Lapidary Equipment	279,715	32,200		311,915
Jewellery Equipment	148,200	-		148,200
Assay Equipment	16,196,428	1,618,990		17,815,418
Machine and Geuda Equipment	8,275,866	16,492		8,292,358
Motor Vehicle	44,286,542	14,590,681	7,958,059	66,835,282
Motor Bicycles	100,000	-		100,000
Bicycles	34,515	936		35,451
Library Books				-
	<b>155,528,926</b>	<b>27,371,312</b>	<b>7,958,059</b>	<b>190,858,297</b>

Net Carrying Values	As At 31 December 2014	As At 01 January 2013
<b>Freehold</b>		
Land	37,941,670	37,941,670
Buildings	119,765,993	120,788,404
Fixture & Fittings	2,533,882	2,292,477
Furniture	3,634,190	3,628,467
Office Equipment	8,786,874	7,036,986
Computer	9,134,664	6,456,407
Laboratory Equipment	11,745,917	9,984,726
Lapidary Equipment	91,560	155,960
Jewellery Equipment	-	(17,955)
Assay Equipment	11,802,615	5,522,956
Machine and Geuda Equipment	-	122,347
Motor Vehicle	36,096,806	54,642,881
Motor Bicycles	-	25,000
Bicycles	1,883	3,755
Library Books	5,700	6,900
<b>Leasehold</b>		
Land	159,205	159,205
	<b>241,700,958</b>	<b>248,750,186</b>
<b>Provision for Impairment</b>	<b>(4,887,690)</b>	<b>(2,934,756)</b>
	<b>236,813,268</b>	<b>245,815,430</b>

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.

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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.

4.	<b>Carrying Value of Right-To-Use Land</b>	<b>2014</b>	<b>2013</b>
	<b>Capitalized Amount</b>		
	As At 01 January	70,909	70,909
	Initial Cost Incurred	-	-
	Capitalized During the Year	-	70,909
	<b>As At 31 December</b>	<b>70,909</b>	<b>70,909</b>
	<b>Amortization</b>		
	As At 01 January	40,182	37,818
	Amortization for the Year	2,364	2,364
	<b>As At 31 December</b>	<b>42,546</b>	<b>40,182</b>
	<b>Carrying Amount</b>	<b>28,363</b>	<b>30,727</b>

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.

5	<b>Intangible Assets</b>	<b>As At</b>	<b>Additions /</b>	<b>As At</b>
		<b>31 Dec. 2014</b>	<b>(Disposals)</b>	<b>31 Dec. 2013</b>
	<b>5.1 At Cost</b>			
	Computer Software	2,530,056		2,530,056
	<b>Total</b>	<b>2,530,056</b>		<b>2,530,056</b>
		<b>As At</b>	<b>Charge for the</b>	<b>As At</b>
		<b>01 Dec. 2014</b>	<b>Year</b>	<b>31 Dec. 201</b>
	<b>5.2 Amortization</b>			
	Computer Software	2,381,140		2,172,265
	<b>Total</b>	<b>2,381,140</b>	<b>-</b>	<b>2,172,265</b>
	<b>5.3 Net Carrying Values</b>		<b>As At</b>	<b>As At</b>
			<b>01 Dec. 2014</b>	<b>31 Dec. 2013</b>
	Computer Software		148,916	357,791
6	<b>Deferred Tax Asset / (Liability)</b>		<b>2014</b>	<b>2013</b>
	<b>Balance at 01 January</b>		<b>(16,062,221)</b>	<b>(16,062,221)</b>
	Adjustment		(861,151)	(2,230,123)
	<b>Balance at 31 December</b>		<b>(16,923,372)</b>	<b>(18,292,344)</b>

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

	2014	2013
<b>7 Other Assets</b>		
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
	<b>372,139,331</b>	<b>372,139,331</b>
Provision for Impairment	(200,000)	(200,000)
	<b>371,939,331</b>	<b>371,939,331</b>
<b>8 Available for sale (AFS) Financial Assets</b>		-
Unlisted Investments	(Note 8.1) <b>1,200,010</b>	<b>1,200,000</b>
<b>8.1 Unlisted Investments</b>	<i>No. of Shares</i>	
The Associated Newspapers of Ceylon Limited	20,000	200,000
G.S.M.B.Technical Services (PVT) Ltd	100,000	1,000,010
	<b>1,200,010</b>	<b>1,200,000</b>
<b>9 Inventories</b>		
Consumables Stock	1,974,996	1,360,639
Gems - Gauda Centre	183,548	183,548
Printing and Stationery Stock	1,983,265	616,218
	<b>4,141,809</b>	<b>2,160,405</b>
<b>10 Receivables</b>		
Receivables	29,201,426	9,512,985
Provision for Impairment	(1,407,972)	(1,407,972)
	<b>27,793,454</b>	<b>8,105,013</b>
Others	1,111,694	1,291,121
	<b>28,905,148</b>	<b>9,396,134</b>
<b>11 Held-to-Maturity Investment (HTM) Carrying Amount at Amortized Cost</b>		
Treasury Bills	<b>482,639,856</b>	<b>216,381,558</b>

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

<b>12 Deposits and Advances</b>	<b>2014</b>	<b>2013</b>
General Deposit	36,407,684	32,143,890
Others	19,525	19,525
Rent Deposits	-	-
40% Land Auction	-	-
Security Deposits	34,500	54,500
Advance to Suppliers	9,117,109	1,925,552
	<b>45,578,819</b>	<b>34,143,467</b>
Provision for Impairment	(1,433,947)	(1,433,947)
	<b>44,144,872</b>	<b>32,709,520</b>
<b>13 Employee Loans &amp; Advances</b>		
Advances	48,750	80,496
No pay Leaves	256,843	169,332
Vehicle Loan	219,983	400,171
Loans	-	-
Textile Loan	205,000	186,522
Distress Loans	13,377,427	12,823,229
	<b>14,108,003</b>	<b>13,659,749</b>
<b>14 Other Financial Assets</b>		
Fixed Deposits	739,722,904	625,854,003
	14,409,721	
	<b>754,132,625</b>	<b>639,376,488</b>
<b>15 Cash and Cash Equivalents</b>		
Cash and Bank Balances - LKR	30,079,962	55,692,429
Bank Balances - Foreign Currency	3,468,032	37,119
Petty Cash	-	-
Investments in REPO	10,000,000	42,234,847
	<b>43,547,994</b>	<b>97,964,396</b>

**NATIONAL GEM & JEWELLERY AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

**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

**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**

	<b>2014</b>	<b>2013</b>
<b>Balance at 01 January</b>	<b>23,995,857</b>	<b>18,607,015</b>
Expense Recognized in the Statement of Comprehensive Income <b>note 22.1</b>	<b>8,259,512</b>	<b>8,115,151</b>
Benefit Paid Year 2014	(1,180,212)	(2,726,309)
Adjustments made year 2014		-
<b>Balance at 31 December</b>	<b>31,075,157</b>	<b>23,995,857</b>
 <b>22.1 Expense Recognized in the statement of comprehensive income</b>		
Interest Cost	2,142,830	1,979,786
Charge for the Year	1,495,119	1,107,708
(Gain) / Loss Arising From Changes in the Assumptions	4,621,563	5,027,657
	<b>8,259,512</b>	<b>8,115,151</b>

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

**NATIONAL GEM & JEWELLERY AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

**The principal assumptions used are as follows**

Discount rate [%]	9	12.0
Future Salary Increases Average - Salary [%]	1.3	1.3
Staff Turnover Factor [%]	2.4	7.2
Retirement age [Yrs]	60	60

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

	<b>2014</b>	<b>2013</b>
<b>23 Liability to Make Lease Payments</b>		
<b>Gross Liability</b>		
<b>As At 01 January</b>	<b>573,239</b>	<b>599,564</b>
Recognized During the Year	-	-
Payments Made During the Year	(26,325)	(26,325)
<b>As At 31 December</b>	<b>546,914</b>	<b>573,239</b>
<b>Finance Cost</b>		
<b>As At 01 January</b>	<b>559,329</b>	<b>583,829</b>
Recognized During the Year	-	-
Finance Cost Recognized in Comprehensive Income During the Year	(24,765)	(24,500)
<b>Finance Cost Allocated to Future Periods</b>	<b>534,564</b>	<b>559,329</b>
<b>Net Liability As At 31 December</b>	<b>(12,350)</b>	<b>(13,910)</b>
<b>23.1 Classification of Liabilities</b>		
<b>Settlements Fall Due Within One Year</b>		
Gross Liability	26,995	26,995
Finance Cost Allocated to Future Periods	(24,765)	(24,765)
	<b>2,230</b>	<b>2,230</b>
<b>Settlements Fall Due More Than One Year</b>		
<b>Settlements Fall Due Within Two to Five Years</b>		
Gross Liability	144,787	131,625
Finance Cost Allocated to Future Periods	(139,918)	(126,444)
	<b>4,869</b>	<b>5,181</b>
<b>Settlements Fall Due More Than Five Years</b>		
Gross Liability	375,132	414,619
Finance Cost Allocated to Future Periods	(369,881)	(408,120)
	<b>5,251</b>	<b>6,499</b>
<b>Total Settlements Fall Due More Than One Year</b>	<b>10,120</b>	<b>11,680</b>
<b>Total Net Liability As At 31 December</b>	<b>12,350</b>	<b>13,910</b>

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

<b>24 Payables</b>		
Creditors	98,136,434	62,031,660
Retention from Contractors	2,568,873	2,568,873
Other	3,236,639	115,325
	<b>103,941,946</b>	<b>64,715,858</b>
	<b>2014</b>	<b>2013</b>
<b>25 Deposits and Advances Received</b>		
Receipts in Advance	16,659,550	1,668,387
License Fees	-	15,243,550
Employee Security Deposits	64,500	114,500
Advances from Customers	15,896	15,896
Over recoveries from Employees	1,500	3,066
Land Dispute Deposits	58,283,065	53,378,475
Tender Deposit	14,836,500	14,103,500
Shop Holder Deposit WTC	16,032,340	11,474,385
Medical Scheme Fund	280,000	280,000
Export Commission Deposits	125,997	125,997
Others	-	45,000
	<b>106,299,348</b>	<b>96,452,755</b>
<b>26 Statutory Payable</b>		
Corporate Tax	116,716,514	60,105,955
Value Added Tax	4,527,831	8,736,530
Withholding Tax	(11,743,761)	(3,017,710)
Retained Gem Auction Tax 2.5%	37,374,163	22,633,413
Nation Building Tax	917,914	1,782,649
Stamp Fees	2,299,667	2,432,636
PAYE Tax	(37,464)	(35,085)
	<b>150,054,864</b>	<b>92,638,388</b>
<b>26.1 Corporate Tax</b>		
<b>Balance as at 01 January</b>	60,105,955	1,414,921
Current Tax for the Year	146,716,514	58,691,034
Payment During the Year - Settlement of Previous Year Liability	(46,318,312)	
- Self Assessment Payments	(30,000,000)	
Set off with Tax Credits - ESC		
- WHT		
- Notional Tax		
Adjustment on (Under) / Over Provision in Previous Year	(13,787,643)	
<b>Balance as at 31 December</b>	<b>116,716,514</b>	<b>60,105,955</b>

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

**27 Provisions and Accrued Expenses**

Provision for Legal Claims	195,300	195,300
Accrued Expenses	48,831,056	19,265,460
	<b>49,026,356</b>	<b>19,460,760</b>

**28 Revenue**

Land Auction -Crown Land	-	7,672,714
Land Auction -LRC	22,533,180	15,114,475
Service and Appeal License Fees	688,517	763,440
Gemming License Fees	35,767,987	37,148,274
Dealers License Fees	33,627,320	30,364,822
Service Fees for Gifts and Samples	353,115	222,000
Gem and Jewellery Export Service Fee	126,129,260	96,606,783
Lapidary License Fees	239,320	207,800
Service fee - Geuda Export	11,279,538	3,438,550
LDO Land / Mineral Tax	4,630,300	4,621,500
Income from Fines	12,182,105	11,862,249
Gem Auction Permits	924,248	638,200
Gem Testing Charges	12,672,514	7,310,998
Income from Assay Office	3,535,422	4,014,743
License copying Charges	138,780	98,200
Service Fee - Katunayaka Diamond Center		10,224,552
Income from Gem Parcel Clearing	1,549,194	1,410,000
Foreign Currency Acceptance Permit	100	293,321
Environmental Protection	101,080	(452,407)
BACO Service Charges	20,311,166	25,185,500
Inspection Charges	58,513,809	67,172,600
Colour and 3D Cards	1,933,542	1,977,287
Sale of Gem	227,935,818	39,697,648
Forfeited Gemming	6,711,750	5,102,250
	<b>590,723,305</b>	<b>370,695,500</b>

**29 Other Income**

Miscellaneous Income	3,427,415	1,664,792
W.T.C and Rathnapura Booth	22,222,597	20,385,819
Sales of Books	8,100	(1,925)
Dividends	540,000	1,351,171
Rental Income	869,650	1,194,579
Proceed of Auctioned Items	46,320	1,409,522
Profit on Disposals of Fixed Assets	-	103,034
Income from Insurance Agencies	430,977	342,866
Sale of Jewellery	274,915	183,412
Life Membership Fee- WTC	137,210	
Ordinary Membership fee- WTC	(85,499)	96,906
	<b>27,871,684</b>	<b>26,730,178</b>

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

	2014	2013
<b>30 Administration Expenses</b>		
Subscription	931,295	290,748
Entertainment (Local)	431,673	486,853
Telephone Charges	5,306,098	4,208,361
Postage and Stamps	1,028,906	992,058
Internet Charges	620,736	247,427
Telex and Fax Charges	81,641	74,921
Expenses of Board Members	813,179	620,905
Rent	4,664,456	3,520,511
Electricity	10,122,429	9,397,814
Rates and Taxes	893,662	919,390
Newspapers and Periodicals	177,141	92,016
Water tax and Charges	1,016,391	957,329
Advertising	745,180	853,070
Transport	247,026	104,214
Insurance	2,806,268	2,370,246
Legal Fees	379,792	3,668,733
Audit Fees for the Year	1,250,000	500,000
Survey Fees	756,986	370,002
Management Consultation	954,988	412,100
Maintenance of Building	3,703,879	4,246,674
Maintenance of Equipments	2,340,845	1,909,240
Security Services	5,196,008	2,459,209
Seminars and Training (Local)	2,816,234	912,422
Raid Expenses	531,567	328,977
General Auction Expenses	1,081,441	3,056,022
Donation	-	1,977,800
Consumable Assets	165,157	350,225
Office Supplies	2,372,154	1,530,931
Amortization of Right-to-use Land	2,364	2,364
Printing and Stationery	1,214,704	3,146,415
Laboratory Supplies	757,130	800,927
Environmental Expenses	2,324,646	7,183,612
Depreciation	27,371,312	25,259,064
Amortization of Intangible Assets	208,875	208,875
Rent W.T.C	15,681,325	15,844,811
Electricity Paid W.T.C	1,692,346	1,430,385
Legal Fees W.T.C	87,596	(137,379)
Stamp Fee-WTC	729,650	-
Maintenance of Motor Vehicle	4,419,448	4,213,686
Oil and Fuel	9,341,432	8,532,071

Tyres and Tube	865,219	1,254,082
License and Insurance Motor Vehicle	1,144,737	1,316,336
Parking Charges	30,240	1,425
Vehicle Insurance Compensation	(89,122)	(455,201)
General Expenses	1,888,365	300,415
Project Expenses	15,381,395	3,014,321
Provision for Legal Claims	-	3,400,000
Bank Charges	253,765	224,869
Unclaimed NBT	627,948	823,428
Bad Debts	-	1,404,560
Research & Development	780,790	-
	<b>136,149,399</b>	<b>126,580,200</b>

	<b>2014</b>	<b>2013</b>
<b>31 Personnel Expenses</b>		

Salaries and Allowances	78,222,833	66,368,517
Acting Allowances / Risk Allowances	718,611	505,234
Non Subject to E.P.F Salaries	13,691,240	8,873,808
Employees Provident Fund	12,425,913	11,091,742
Employees Trust Fund	2,502,195	2,134,731
Overtime	3,751,131	3,530,029
Payment for Working on Holidays	162,775	179,213
Awards (Gold Medals)	221,623	-
Leave Bonus	4,611,375	3,907,869
Interest Payed on Staff Housing Loans	213,894	293,826
Employee Incentives	24,131,405	7,525,008
Gratuity	8,259,512	8,115,151
Travelling (Local)	2,226,992	2,104,513
Uniforms for Staff	246,345	222,168
Staff Welfare	7,311,575	5,528,905
Labour Compensation	241,233	246,300
Medical Fees	5,559,197	4,216,211
Transport Allowances	7,836,900	5,228,000
	<b>172,334,751</b>	<b>130,071,227</b>

<b>32 Promotional Expenses</b>		
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Travelling - Overseas	11,233,535	-
Exhibition Expenses- Local	29,398,234	14,049,238
Exhibition Expenses- Foreign	9,700,643	10,173,420
Publicity - Local	4,377,974	4,858,957
Other	1,678,530	1,726,131
	<b>56,388,916</b>	<b>30,807,746</b>

NATIONAL GEM & JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

**33 Net Finance Income**

**Interest Income**

Interest on Fixed Deposits and Treasury Bills	60,761,139	109,662,052
Interest on Staff Loan	483,937	479,945
	<b>61,245,077</b>	<b>110,141,997</b>

**Interest Expenses**

Finance cost on Liability to Make Lease Payments	(24,765)	(24,500)
	<b>(24,765)</b>	<b>(24,500)</b>
	<b>61,220,312</b>	<b>110,117,497</b>

**34 Income Tax Expenses**

Current Tax Expense	146,716,514	58,691,033
Deferred Tax Charge / (Reversal)	(1,368,972)	2,230,123
	<b>145,347,542</b>	<b>60,921,156</b>

<b>Accounting Profit Before Taxation</b>	<b>314,942,235</b>	<b>120,084,001</b>
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Aggregated Disallowable Items	45,902,450	146,720,857
Aggregated Allowable Items	(31,959,862)	(26,491,622)
Income from Other Sources	(84,877,320)	(143,825,087)
<b>Profit / (Loss) from Trade or Business</b>	<b>244,007,503</b>	<b>96,488,149</b>

Other Income Liable for Tax - Interest Income	84,337,320	141,563,392
<b>Total Statutory Income</b>	<b>328,344,823</b>	<b>238,051,541</b>

Qualifying Payment	-	(101,525,000)
Tax Losses Utilized	(4,625,990)	-
<b>Assessable Income / Taxable Income</b>	<b>323,718,833</b>	<b>136,526,541</b>

Tax Charged at Statutory Tax Rate of 28%	90,641,273	38,227,431
Tax on Gross Dividend	56,075,241	20,463,602

<b>Current Tax on Ordinary Activities for the Year</b>	<b>146,716,514</b>	<b>58,691,033</b>
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**Tax Losses**

<b>Loss Brought Forward</b>	-	<b>86,240,991</b>
Loss Incurred	-	-
Loss Utilized	-	<b>(86,240,991)</b>
<b>Loss Carried forward</b>	-	-

**NATIONAL GEM & JEWELLERY AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

**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.

**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.**

	<b>2014</b>	<b>2013</b>
Remuneration and Other Short-Term Employee Benefits	813,179	2,011,950
Post Employment Benefits		20,056

**38.2 Related Party Transactions**

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

<b>Related Party</b>	<b>Nature of Transactions for the Reporting Period</b>	<b>Transaction Value</b>	<b>Balance (Due to)/Due from</b>
State-Owned Enterprises	Investment in Fixed Deposits and Treasury Bills	<b>1242362760.68</b>	
	Withdrawal of Fixed Deposits and Treasury Bills	<b>20000000</b>	
	Investment in REPO	<b>10000000</b>	<b>10000000</b>
	Withdrawal of REPO		
Other Government Related Entities	Investment in Shares	<b>1200010</b>	<b>1200010</b>



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



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எனது இல. }  
My No. }

TM/J/NGJ/1/14/1

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உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

14 July 2015

The 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 2014 in terms of Section 14(2) (c) of the Finance Act, No. 38 of 1971.

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The audit of financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21(2) 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 will be furnished to the Chairman of the Authority in due course.

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

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### 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 (ISSAI 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 statements.

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. Sub-sections (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 Basis 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 2014 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 Sri Lanka Accounting Standards

The following observations are made.

##### (a) Sri Lanka Accounting Standards 01

Two fixed deposits of Rs.20,000,000 with a 3 year period of maturity had been shown in the financial statements under current assets instead of being shown as investments assets in the accounts.

##### (b) Sri Lanka Accounting Standards 16

(i) Even though fully depreciated 14 motor vehicles valued at Rs.31,300,527 are being used by the Authority furthermore, it had not been disclosed in the financial statements.

(ii) Even though assets should be depreciated since the date on which it had become usable condition, 5 items of assets had been over depreciated by Rs.111,015 according to the audit test checks as those assets had been depreciated since the date of payment. Similarly, a motor vehicle costing Rs.8,803,881 which had been purchased in the year 2010 had not been depreciated from the year 2010 to the year 2012. Therefore, the cumulative depreciation of this motor vehicle had been understated by Rs.4,401,939 in the financial statements.



### 2.2.2 Accounting Deficiencies

The following observations are made.

- (a) An amount of Rs.8,714,800 remitted to the Department of Inland Revenue from the tax at 2.5 per cent collected at gem auctions by the Authority had been debited to the withholding tax receivable account. Therefore, the balance of the receivable withholding tax account had been overstated by that amount.
- (b) Interest of Rs.14, 029,773 receivable for the investment of Rs.861.3 million made in 11 fixed deposits and 5 Treasury bills had not been brought to accounts.
- (c) The interest of Rs.8,496,216 receivable for the Treasury bills and fixed deposits had been totally debited to the Treasury Bills Account, instead of debiting to the relevant accounts, separately.
- (d) Commission income amounting to Rs.53,317 receivable from the Sri Lanka Insurance Corporation for the last quarter of the year under review had not been accounted.
- (e) Reservation of the rooms in the buildings of Rs.4,299,688 had been shown under the buildings without classifying separately.
- (f) Insurance income of the year had been overstated by Rs.405,881 in the financial statements due to the Gevuda transport insurance expenditure of Rs.234,149 paid for the period of 4 months in the year under review had not been deducted from the insurance income and the payable insurance expenditure of Rs.171,732 for the last quarter in the year under review had not been brought to account .
- (g) An advance amounting to Rs.5,015,179 had been paid for the renovation of the Regional Offices at Navula and Monaragala. Despite the constructions of these buildings had not been completed , a sum similar to the advance paid had been erroneously capitalized and the same amount had been brought to account as further payable as well.



2.2.3 Un-reconciled Control Accounts

A difference of Rs.3,100,308 was observed as 05 control accounts aggregating to Rs.171,474,206 had not been reconciled with the relevant subsidiary records shown in the financial statements .

2.2.4 Lack of Evidence for Audit

The contract agreement, bills and copies of the plans relevant to the expenditure of Rs.3,580,000 incurred for the construction of trade stalls for an exhibition held in Shanghai in China had not been presented to audit.

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) Section 11 of the Finance Act, No.38 of 1971	A sum of Rs.482,639,856 and a sum of Rs.739,722,904 in Treasury bills and fixed deposits respectively had been invested without getting necessary approval.
(b) Section 18(1) of the Gem and Jewellery Act, No.50 of 1993	Even though any person who mines for gems on State land or any land over which any mining or gemming rights remain with the State and such person has acquired such land and such mining or gemming rights by way of an auction, the price paid at such auction by such person shall be deemed to include a royalty in lieu of any gems that may be found on such land, any royalty had not been paid to the General Treasury by the Authority from the auction value of the gems gained from gem mining projects done by the Authority .Further, directives in relation to the percentages of the royalty had not been published through the Gazette Notifications.



(c) Establishments Code of the  
Democratic Republic of Sri Lanka

(i) Section 13.3 of Chapter II

An acting appointment should be made as a temporary measure only and until a substantive appointment is made. Nevertheless, without taking action to appoint a full time officer to the post of Deputy Director General which was vacant from 28 July 2012 of the Authority, covering up duties were being done in the relevant post for over a period of two and half years up to the date of this report.

(ii) Section 4 of Chapter VII

A sum of Rs.390,870 had been over paid for 10 officers in the year under review due to absorption of employees had been made in the next steps of new salary codes as well as several next steps in the current salary codes.

(iii) Section 23.1 of Chapter

xii

A Valuation Officer employed in the Authority had proceeded abroad in three instances during the period from November 2012 to the year 2014 without getting approval, and he had returned to the Island exceeding the approved time period in two instances for which the approval had been obtained. An allowance of US\$ 3,960 ( about Rs.518,760 ) had been paid per each foreign travel.



(d) Section 2 of Chapter 01 of the Incentive at the rate of Rs.50,000 had been paid in Circular No.05/2014 dated 21 November the year under review by the Authority exceeding the amount of 2014 of the Department of Management Rs.13,500 which should have been payable to an employee. Services. Accordingly, the total amount paid contrary to the Circular instructions was Rs.8,504,500 .

(e) Part 4 of the Policy and Procedure Manual of the Application of the Information Technology (e-Public Policy) in Public Sector dated 02 December 2009.

(i) Section 040102

Even though official electronic mail addresses should be used for all official electronic communications, private electronic mails had been used when organizing the foreign exhibitions by the Export Promotion Division of the Authority.

(ii) Section 040111

Even though an official signature with the officer's name, designation and the name of the Institution should be included in the official e-mails of the Institution, action had not been taken accordingly.

(f) Section 1.1.6 (v) of the Public Administration Circular No.22/99 of 08 October 1999

An official vehicle had been assigned to the Director (Export and Export Sales) of the Authority without approval of the Secretary to the Ministry and a sum of Rs.591,180 had been paid for the transport and fuel allowances in the year under review in this connection. Even though the relevant officers could drive vehicles only for emergency official duties of the Authority, the officers of the Authority used to drive vehicles regularly by themselves and the vehicles are being parked in their homes at night.



- (g) Paragraph 6 of the Circular No.01/2010/01 of the Ministry of Finance and Planning dated 11 October 2010. A sum of Rs.769,560 had been over paid exceeding the entitled combined allowance for the officers who participated in the foreign exhibitions.
- (h) Public Enterprises Circular No.PED/56 of 27 January 2011. Even though all the excess money should be transferred to the Consolidated Fund by keeping sufficient amount of money for working capital requirements for the future 6 months period, it had not been so done by the Authority.

#### 2.4 Transactions not Supported by Adequate Authority

Total expenditure amounting to Rs.12,481,405 had been paid as incentives in the year under review, similar to the two months gross salary to all employees of the Authority based only on the decision of the Board of Directors without the approval of the Department of Management Services, when the payment of incentives was made during the year under review. Further, a sum of Rs.4,611,375 had also been paid for all employees of the Authority for un-availed leave without the approval of the Department of Management Services.

### 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 2014 amounted to a pre-tax net-profit of Rs.314,942,235 as compared with the corresponding net profit of Rs.120,084,002 for the preceding year thus an increase of Rs.194,858,233 in the financial result was indicated. Increase of income from sale of gem and export service charges by Rs.217 million had been the main reason for this increase.



### 3.2 Analytical Financial Review

The profit for the year under review had increased by a sum of Rs.194,858,233 or 162 per cent as compared with the preceding year and the profit of the year 2012 had increased by a sum of Rs.230,844,298 or 830 per cent as compared with the year 2011. The main reason for the typical improvement of income had been the income generated from the Seeethawaka Ganga Pilot Project and the gem lands auctions at Kataragama respectively.

### 3.3 Abnormal Increase in Expenditure

The expenditure relating to 9 Objects had been increased abnormally by Rs.40,158,415 as compared with the preceding year and the percentage of this increase had ranged from 32 per cent to 529 per cent. Only the expenditure incurred for commencing the Projects of finding gems beside the rivers which had increased by Rs.1,587,951 or 529 per cent directly contributed to earn the income of the Authority .

## 4. Operating Review

### 4.1 Management Inefficiencies

The following observations are made.

- (a) A Fund had been established from the income recovered from the income of export services charges since the year 2005 and a sum of Rs.92,948,578 had been given from the said Fund in the year 2009 to a private institution for the construction of a laboratory. This laboratory had not been established even by May 2015 and an interest of Rs.42 million had been earned by that institute by investing this money since the year 2009. However, the Authority had deprived of that interest income.
- (b) The general public had not been made aware by publishing a Gazette Notification in relation to the charges such as license fees, export service charges, gem and jewellery testing charges recovered by the Authority.



- (c) The matters such as contradiction of decisions given by the Institute and the Ministry in relation to appeals, issuing license to another party despite there was an appeal ,issuing gem cutting licenses to the lands which had partition cases had been the causes for many cases in relation to issuing of licenses . The institute had not taken any action whatsoever to mitigate these problems. A sum of Rs.90,410 had been spent as legal charges for 3 cases sued in relation to the above matters at the end of the year under review, due to the weakness in policies of the institution.
- (d) An appropriate pricing policy had not been adopted in deciding prizes of the trade stalls in foreign exhibitions. As a result ,complaints had been focused by the exhibitors to the Authority who participate in the exhibitions. eg. Shanghai Gem and Jewellery Exhibition held in may in the year under review.

#### 4.2 Personnel Management

The following observations are made.

- (a) An excess of 53 employees , as compared the approved cadre with the actual cadre (including contract basis) employed in accordance with the Divisions of the Authority was observed.
- (b) Even though officers appointed on acting basis over a period of 2 years for the key managerial posts such as Director General and the Deputy Director General ,action had not been taken to appoint permanent officers.
- (c) An interview was held on 03 January 2014 by calling for applications for the recruitment of the post of Director(Export Services and Export Sales) and an overaged officer who had no basic qualifications had been recruited and a sum of Rs.653,918 had been paid as salaries and allowances (except fuel and transport allowances ) and placed him in step HM II salary scale ,despite there were 3 applicants who had the basic qualifications .It was also revealed that this officer was a full time Director in a private institute.
- (d) Two officers who had not fulfilled the minimum qualifications and experiences in accordance with the approved recruitment procedure followed by internal recruitment of the employees by an interview had been recruited for two posts of Assistant Directors .



- (e) Despite there were two qualified officers for the post of Secretary of the Institution, it had got that task done by a private Institution. It was observed that a problematic condition could be arisen on the confidentiality of the internal information of the Authority due to non-appointment of a permanent officer of the Authority.
- (f) Re-employment of Pensioners
  - (i) An officer who was over 60 years of age had been recruited from October 2012 on contract basis as an advisor only on the approval of the Board of Directors. In this connection, a sum of rs.937,143 in the year under review and a sum of Rs.796,000 in the year 2013 had been paid as monthly allowance and other allowances .
  - (ii) A sum of Rs.338,633 in the year under review and a sum of Rs.568,334 in the year 2013 had been paid as monthly allowance and other incentive allowances for the Assistant Valuer (Gemmology) who had been re-employed on contract basis after the retirement .
- (g) Despite there was a qualified officer for the post of Legal Officer in the Authority, the aforesaid officer had been attached to another Post and 3 officers had been recruited on contract basis for the Legal Division.

#### 4.3 Transactions of Contentious Nature

The following observations are made.

- (a) An allowance of Rs.40,000 had been paid for 437 low income families by spending a sum of Rs.17,480,000 from the income of gem auctions obtained from the Seethawaka Ganga Research Pilot Project. This expenditure is a contradictory payment to the objectives of the institute and the method of identifying the families to whom allowances were paid was a matter of contentious nature in audit.
- (b) A sum of Rs.281,152 had been obtained as incentives for the year under review by an officer stating fraudulently as reported for duty who had been undergone on a heart surgery.



#### 4.4 Identified Losses

It was revealed by export invoices that gems valued at Rs.2,990 million had been exported in the year under review under the special Project of exporting cut and polished gems. Service charge income earned by the Authority on that export amounted to Rs.7,915,142 and if gems were exported as usual method outside this Project, the minimum income of Rs.14,950,186 could have been earned by the Authority. Accordingly, it was observed that an income of about Rs.7,035,044 had lost to the Authority. The laws and rules relevant to this Project had not been enacted by a Gazette Notification.

#### 4.5 Apparent Irregularities

Even though a sum of Rs.8,642,300 had been obtained as withholding tax relief and notional tax relief when the payment of income tax for the years of 2013 / 2014 on interest income, was made the income tax paid had been decreased by Rs.1,574,885 as only a sum of Rs.3,017,709 had been credited to the Interest Income Account.

#### 4.6 Delayed Projects

Approval had been granted in the year 2011 from the Department of Public Enterprises for the implementation of skill development programmes for jewellery craftsmen by using Rs.12 million from the funds of the Jewellery Development Fund. Nevertheless, the Authority had failed to implement the activities such as providing gold and silver for craftsmen to a concessionary rates, establishing a Loan Relief Fund for craftsmen, providing English knowledge and foreign technical know-how for craftsmen and organizing a local mobile trade fair for gold and silver jewellery under the approved programmes. Further, quarterly reports indicating the progress of the approved programmes had not been presented to the Department of Public Enterprises.

### 5. Accountability and Good Governance

#### 5.1 Corporate Plan

All the activities to be performed in terms of Section 14 of the National Gem and Jewellery Authority Act, No.50 of 1993 had not been included in the Corporate Plan.



5.2 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.

5.3 Unsettled Audit Paragraphs

The following observations are made.

- (a) A loss of Rs.2,165,852 had been occurred by the Authority in the years 2012 and 2013 due to obtaining the fuel exceeding the approved fuel allowances continuously without getting the approval by the officers of the Authority, contrary to the Public Enterprises Circular No.39 dated 09 October 2006.
- (b) Recruitment to the post of Director-Human Resource and Administration 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 payment and incentives amounting to Rs.36,844 had been made in the year 2013.

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 from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Vehicles Fleet
- (c) Human Resources Management
- (d) Organizing Foreign Trade Exhibitions.

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