NATIONAL GEM AND JEWELLERY AUTHORITY

ANNUAL REPORT

2015

Ministry of Mahaweli Development and Envioronment

NGJA/6/Annual Report/2015 2016-11-30

Hon. Minister of Mahaweli Development and Envioronment

Ministry of Mahaweli Development and Envioronment

82,“Sampathpaya”

Rajamalwatte Road

Battarammulla

Hon. Minister,

ANNUAL REPORT FOR THE YEAR 2015

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 & JewelleryAuthority for the year 2015.
2. Balance Sheet as at 31st December 2015 and the Profit & Loss Account for the year ended 31st December 2015 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 and Jewellery Authority

OUR VISION

"Sri Lanka -The Sapphire Capital"

OUR MISSION

Achieve Industry Excellence Through The Development, Promotion & Regulation of The Gem & Jewellery Sector to Generate National Wealth and Stakeholder Delight.

The Board of Directors of
National Gem and Jewellery Authority
Year 2015

		Date Joined	Date Resigned
1. Mr. Vajira Narampanawa	Chairman	30.01.2015	23.04.2015
2. Mr. Aruna Gunawardena	Chairman	23.04.2015	15.10.2015
3. Mr. Asanka Welagedara	Chairman	18.11.2015	
4. Mr. Raja Peiris	Member	30.01.2015	
5. Mr. N.B. Wegodapola	Member	30.01.2015	
6. Mr. Navaratne Bandara	Member	24.02.2015	
7. Mr. M. Puviharan	Member	23.02.2015	08.11.2015
8. Mr. Bandula Egodage	Member	24.02.2015	28.10.2015
9. Mr. A.K. Senaviratne	Member	03.03.2015	
10. Mr. D.M. Rupasinghe	Member	03.03.2015	20.11.2015
11. Ms. N. Godakanda	Member	23.04.2015	
12. Mr. P.B. Mallawa Arachchi	Member	30.04.2015	25.10.2015
13. Mr. B.G. Indika Kumudu Samaraweera	Member	26.05.2015	
14. Dr. I. Dissanayake	Member	26.05.2015	15.10.2015
15. Ms. T.M.J.Y.P. Fernando	Member	20.11.2015	
16. Ms. Indira Malwatte	Member	02.12.2015	31.12.2015

Administration Report of the National Gem and Jewellery Authority

For the year 2015 Under 14 (1) of the Finance Act No.38 of 1971

01. The year 2015 marks the 21st 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.43.548 (Mn) and at the end of the year It was Rs. 55.890 (Mn). Held to Maturity Investments (Treasury bills) at the beginning of the year was Rs.482.640 (Mn) and at the year end it was Rs.552.962 (Mn).

Other Financial Assets at the beginning of the year was Rs.754.132 (Mn) and at the year end it was Rs. 779.742 (Mn).

3.2 Profitability:

	2010 **Rs. Mn**	**2011** **Rs. Mn**	**2012** **Rs. Mn**	**2013** **Rs. Mn**	**2014** **Rs. Mn**	**2015** **Rs. Mn**
Total Income	228.962	250.300	612.004	507.542	679.815	780.370
Total Expenditure	261.929	222.488	261.076	387.458	364.873	458.385
Profit (Before Tax)	**(32.967)**	**27.812**	**350.928**	**120.084**	**314.942**	**321.985**

04. Human Resources :

The staff of the Authority reached 269 at the end of 2015 including professionals. Continuous professional development activities were carried out during the year. The staff training cost for the year amounts to Rs. 3 Million during the year.

05. Issue of Licenses :

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Gemming Licenses	3,970	4,061	4,687	5,956	6,565	5928	5151
Gem Dealers Licenses	4,036	4,195	4,422	4,382	4,429	4714	4619
Lapidary Licenses	174	168	179	177	192	199	204
Gem Auction Licenses	217	262	277	364	624	578	543
Total Licenses	**8,357**	**8,686**	**9,565**	**10,879**	**11,810**	**11,419**	**10,517**

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:

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

The Authority have conducted several raids during the period under review to control illicit gemming and to prevent environmental destruction. The income earned from fines amounts to Rs**. 15.756** million. The Authority had taken action to close the abandoned gem pits and rehabilitate damaged riverbanks.

07. Special Gem Mining Projects.

During the year one special gem mining project was carried out at Bagawanthalawa Estate and income earned was **Rs. 40.746(Mn)**. Two such project were earmarked namely **Seethawaka Ganga** and **Haraniyawaka Kalu Ganga** which was not materialized due to certain barriers.

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. International Jewellery Tokyo – Japan 21 – 24 January
   ii. HKTDC Hong Kong International Diamond, Gems & Pearl Show – 2 – 6 March
   iii. Jewellery Shanghai Show – 6 – 10 May
   iv. The JCK Las Vegas Show - 29 May – 1 June
   v. Singapore International Jewellery Show – 2 – 5 July
   vi. International Jewellery London – 6 – 8 September
   vii. Hong Kong International Gem Show – 16 – 20 September
   viii. Haifeng Gold Jewellery Show 6 – 8 November
   ix. China International Jewellery Show – 28 November – 2 December
   x. China International Gold, Jewellery& Gem Fair – 11 – 14 December

2. Organization of Trade Delegation to International Gem and Jewellery Exhibitions

   i. Hong Kong Jewellery Show – 18 – 22 September

3. Organized Gem and Jewellery Sector participation at the following events,

   i. South Asian Commodity Fair organized by Sri Lanka Export Development Board
   ii. World Exposition “Expo Milan” 2015
   iii. Sri Lankan Promotions in Shanghai organized by Sri Lanka Tourism

4. Sponsored and organized NGJA Pavilion at the Local Trade Fairs and Exhibitions

   i. **‘ NGJA SME Pavilion’** at the ICA Congress 16 – 19 May 2015
   ii. 25th Sri Lanka International Gem and Jewellery Show – “Facets Sri Lanka 2015” 3 – 6 September
   iii. Tourism Mega Promotion – 19 – 23 December
   iv. **“Jewels 2015”** organized by Gemmologists Association of Sri Lanka 19 – 21 December

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 Industryto 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.ngja.gov.lk.**

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. Management and operation of "Rathnadeepa" Showroom and sales outlet to promote and market Jewellery articles produced by SME Jewellery Manufacturers in Sri Lanka.

11. Provide assistance to import Raw Materials, tools, machinery & Equipment used in the gem and jewellery industry on a concessionary duty basis.

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 2015 under review:

	2010 Rs. Mn	**2011** Rs. Mn	**2012** Rs. Mn	**2013** Rs. Mn	**2014** Rs. Mn	**2015** Rs. Mn
Gem Exports	7,488.6	10,027.6	14,557	14805	19014	18898
Gem – NSS Special Project				1915	3179	2792
Jewellery Exports	1,490.5	1,732.	2,444	2194	2467	2192
Geuda Exports	136.5	146.7	225	122	140	102
Diamond Re-Exports	36,030.1	45,381.1	52,893	37885	25,633	19790
Diamond Jewellery Exports	312.5	375.8	324	229	258	315
Total Exports	**45,458.20**	**57.663.5**	**70,443**	**57,210**	**50,691**	**44,089**

Asanka Welagedara
Chairman & Chief Executive Officer
National Gem and Jewellery Authority

2016-02-26

NATIONAL GEM AND JEWELLERY AUTHORITY

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015	2014
		Rs. Cts.	Rs. Cts.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	**3**	304,125,489.29	236,813,268
Leasehold Land (Right-To-Use Land)	**4**	25,998.70	28,363
Intangible Assets	**5**	173,300.32	148,916
Deferred Tax Asset	**6**		
Other Assets	**7**	371,939,330.58	371,939,331
Available-for-Sale (AFS) Financial Assets	**8**	1,200,010.00	1,200,010
Capital Working Progress		1,728,008.22	-
Other Financial Assets	**14**	20,000,000.00	-
Total Non-Current Assets		**699,192,137.11**	**610,129,887**
Current Assets			
Inventories	**9**	4,752,892.27	4,141,809
Receivables	**10**	41,901,499.68	28,905,148
Held-to-Maturity Investment (HTM)	**11**	552,962,321.53	482,639,856
Deposits and Advances	**12**	41,743,012.24	44,144,872
Employee Loans & Advances	**13**	11,682,492.51	14,108,003
Other Financial Assets	**14**	779,742,162.53	754,132,625
Cash and Cash Equivalents	**15**	55,890,007.28	43,547,995
Total Current Assets		1,488,674,388.04	1,371,620,308
TOTAL ASSETS		**2,187,866,525.15**	**1,981,750,195**
EQUITY & LIABILITIES			
Equity			
Contributed Capital	**16**	30,000,000.00	30,000,000
Gem Mining Welfare Fund	**17**	26,748,972.71	27,365,928
Jewellery Development Fund	**18**	46,558,762.67	37,504,763
Gem Rewards Fund	**19**	38,150,634.89	36,033,910
Gems Revaluation Reserve	**20**	355,074,648.00	355,074,648
Revaluation Reserve	**21**	52,845,424.11	52,945,425
Retained Earnings		735,816,080.16	615,579,700
Total Equity		**1,285,294,522.54**	**1,154,504,374**
Non-Current Liabilities			
Retirement Benefits Obligation	**22**	39,083,126.55	31,075,157
Deferred Tax Liability	**6**	20,063,344.00	16,923,372
Liability to Make Lease Payments - Settlements Fall Due More Than One Year	**23.1**	9,208.00	10,120
Total Non-Current Liabilities		**59,155,678.55**	**48,008,649**

Current Liabilities

Liability to Make Lease Payments - Settlements Fall Due Within One Year	**23.1**	1,809.00	2,230
Payables	**24**	158,371,142.91	103,941,946
Gemming Deposits		390,976,994.66	369,912,429
Deposits and Advances Received	**25**	103,940,535.65	106,299,348
Statutory Payable	**26**	157,208,058.73	150,054,864
Provisions and Accrued Expenses	**27**	32,917,783.11	49,026,356
Total Current Liabilities		**843,416,324.06**	**779,237,172**
TOTAL EQUITY & LIABILITIES		**2,187,866,525.15**	**1,981,750,195**

The Director finance certifies that the financial Statements have been prepared in accordance with the requirements of the Sri Lanka Accounting standards as laid down by the Institute of Charterd Accountants of Sri Lanka.

DIRECTOR FINANCE

The Accounting policies on pages 18-25 and Notes on pages 26- 30 from an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial statements were approved by the Board of Directors on 24th February 2016 and signed on their behalf.

....

CHAIRMAN / CEO **DIRECTOR**

NATIONAL GEM AND JEWELLERY AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014
Revenue	**28**	580,394,662,.94	590,723,305,
Other Income	**29**	92,356,673.80	27,871,684
Administration Expenses	**30**	(147,716,986.70)	(136,149,399)
Personnel Expenses	**31**	(218,311,400.46)	(172,334,751)
Promotional Expenses	**32**	(92,358,312.19)	(56,388,916)
		-------------------	----------------
Operating Profit		**214,364,637.39**	**253,721,924**
		--------------------	----------------
Net Finance Income	**33**	**107,620,076.83**	**61,220,312**
		--------------------	----------------
Profit After Net Finance Income		**321,984,714.22**	**314,942,235**
		---------------------	----------------
Contribution to Consolidated Fund		**(75,000,000.00)**	**-**
		--------------------	----------------
Profit Before Tax		**246,984,714.22**	**314,942,235**
		--------------------	-----------------
Income Tax Expenses	**34**	(130,925,283.44)	(145,347,542)
		---------------------	-----------------
Profit for the Year		**116,059,430.78**	**169,594,693**
		===========	========
Profit for the Year		**116,059,430.78**	**169,594,693**
Other Comprehensive Income		-	-
		-------------------	-----------------
Total Comprehensive Income for the Year		**116,059,430.78**	**169,594,693**
		==========	========

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 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.

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%

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)

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 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.

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.

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 (note 22). Any changes in these assumptions will impact the carrying amount of defined benefit obligation.

NATIONAL GEM AND JEWELLERY AUTHORITY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

2.

	Contributed Capital	Gem Minning Welfare Fund	Jewellery Development Fund	Gem Rewards Fund	Other Reserve	Gems Revaluation Reserve	Revaluation Reserve	Retained Earnings	Total
Balance as at 01 January 2014	**30,000,000**	**26,927,4988**	**29,059,263**	**36,511,450**	**-**	**355,074.648**	**52,945,425**	**440,155,420**	**970,673,704**
Fair Value Adjustment	-	-	-	-	-	-	-	-	-
Profit for the Year								169,594,693	169,594,693
Other Comprehensive Income	-	-	-	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	-	-	-	-	169,594,693
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									
Balance as at 31 December 2014	**30,000,000**	**27,365,928**	**37,504,763**	**36,033,910**	**-**	**355,074,648**	**52,945,425**	**615,579,700**	**1,154,504,374**
Fair Value Adjustment	-	-	-	-	-	-	-	-	-
Profit for the Year								116,059,431	116,059,431
Other Comprehensive Income									
Total Comprehensive Income									**116,059,431**
Prior Year Adjustment								4,176,949	4,176,949
Contribution to / (Utilization) for the Year		(616,955)	9,054,000	2,116,725					10,533,769
Adjustment on Impairment									
Balance as at 31 December 2015	**30,000,000**	**26,748,973**	**46,558,763**	**38,150,635**	**-**	**355,074,648**	**52,945,425**	**735,816,080**	**1,285,294,522**

NATIONAL GEM AND JEWELLERY AUTHORITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
Profit Before Tax	321,984,714	314,942,235
Adjustments for		
Deprecation	29,476,142	27,371,312
Amotisation of Intangible Assets	122,866	208,875
Provision for Retirement Benefit Obligations	8,389,972	8,259,512
Dividends	(180,000)	(540,000)
Profit on Disposals of Fixed Assets	44,850	-
Interest Income	(107,645,069)	(61,245,077)
Finance cost on Liability to Make Lease Payments	24,992	24,765
Amortization of Right-to-use Land	2,364	2,364
Operating Profit Before Working Capital Changes	252,220,831	**289,023,987**
Changes in working Capital		
Inventories	**(611,083)**	**(1,981,404)**
Receivables	**(12,966,352)**	**(19,509,014)**
Deposits and Advances	**2,401,860**	**(11,435,352)**
Prepaid Expenses	**-**	**-**
Employee Loans & Advances	**2,425,510**	**(448,254)**
Payables	**54,429,197**	**25,438,445**
Gemming Deposits	**21,064,566**	**43,238,645**
Deposits and Advances Received	**(2,358,812)**	**9,846,592**

Provisions and Accrued Expenses	**(15,499,687)**	**29,188,337**
Cash Generated from Operations	**301,076,030**	**363,361,983**
Gratuity Paid	**(382,002)**	**(1,180,212)**
Taxes Paid	**(133,574,741)**	**(61,318,311)**
Net Cash from Operating Activities	**167,119,287**	**300,863,461**
Cash Flows from Investing Activities		
Acquisition of Property, Plant and Equipment	(103,247,343)	(44,428,902)
Proceeds from Disposal of Fixed Assets	36,700	-
Dividend Received	180,000	540,000
Net Investment in Other Financial Assets	(34,761,405)	(114,756,127)
Net Investment in Treasury Bills	(135,157,740)	(266,259,974)
Interest Received	107,645,069	61,245,077
Net Cash from (used in) investing activities	**(165,304,719)**	**(363,659,927)**
Cash Flows from Financing Activities		
Utilization of Gem Mining Welfare Fund	(616,955)	438,431
Settlement of Liability to Make Lease Payments	(26,325)	(26,235)
Contribution to Jewellery Development Fund	9,054,000	8,445,500
Contribution to Gem Rewards Fund	2,116,724	(477,540)
Net Cash From (used in) Financing Activities	**10,527,444**	**8,380,065**
Net Changes in Cash & Cash Equivalents	**12,342,012**	**(54,416,401)**
Cash & cash Equivalents at Beginning of the year	**43,547,995**	**97,964,396**
Cash & Cash Equivalents at End of the Year (Note 5)	**55,890,007**	**43,547,995**

NATIONAL GEM AND JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. Property, Plant & Equipment Cost	As At 01 January 2015	Additions	(Disposals)	As At 31 December 2015
Freehold				
Land	37,941,670	-	-	37,941,670
Buildings	160,176,966	-	-	160,176,966
Fixture & Fittings	14,156,310	335,275	-	14,491,585
Furniture	12,440,795	627,318	(52,500)	13,014,613
Office Equipment	17,938,624	854,535	(215,922)	18,577,237
Computer	24,507,498	1,838,800	(235,383)	26,110,915
Laboratory Equipment	23,700,997	368,200	-	24,069,197
Lapidary Equipment	403,475	-	-	403,475
Jewellery Equipment	148,200	-	-	148,200
Assay Equipment	29,618,033	93,573,215	-	123,191,248
Machine and Geuda Equipment	8,292,358	-	-	9,292,358
Motor Vehicle	102,932,088	5,650,000	-	108,582,088
Motor Bicycles	100,000	-	-	100,000
Bicycles	37,344	-	-	37,334
Library Books	5700	-	-	5,700
Leasehold				
Land	159,205	-	-	159,205
	432,559,254	**103,247,343**	**(504,805)**	**533,326,303**

Depreciation	As At 01 January 2015	Charge for the Year	(Disposals)	As At 31 December 2015
Buildings	40,410,973	4,530,180	-	44,941,153
Fixture & Fittings	11,622,429	470,754	-	12,903,183
Furniture	8,806,606	797,377	(46,497)	9,557,486
Office Equipment	9,151,750	1,444,695	(141,375)	10,455,070
Computer	15,372,834	3,111,162	(235,382)	18,248,614
Laboratory Equipment	11,955,080	1,796,570	-	13,751,650
Lapidary Equipment	311,915	32,200	-	344,115
Jewellery Equipment	148,200	-	-	148,200
Assay Equipment	17,815,418	927,469	-	18,742,888
Machine and Geuda Equip:	8,292,358	-	-	8,292,358
Motor Vehicle	66,835,282	16,364,799	-	87,602,020
Motor Bicycles	100,000	-	-	100,000
Bicycles	35,451	-	-	34,451
Library Books	-	936	-	936
	190,858,297	**29,476,142**	**(423,254)**	**224,313,124**

	As At 31st December 2015	As At 31st December 2014	As At 01st January 2014
Net Carrying Values			
Freehold			
Land	37,941,670	37,941,670	37,941,670
Buildings	113,260,324	119,765,993	117,084,862
Fixture & Fittings	2,398,403	2,533,882	2,233,044
Furniture	3,457,128	3,634,190	3,186,581
Office Equipment	8,122,167	8,786,874	6,768,767
Computer	7,862,300	9,134,664	6,410,875
Laboratory Equipment	10,317,547	11,745,917	10,630,688
Lapidary Equipment	59,360	91,560	123,760
Jewellery Equipment	-	-	-
Assay Equipment	104,448,361	11,802,615	9,105,243
Machine and Geuda Equip:	-	-	16,492
Motor Vehicle	20,980,068	36,096,806	38,958,045
Motor Bicycles	-	-	-
Bicycles	1,883	1,883	2,819
Library Books	4,764	5,700	6,900
Leasehold			
Land	159,205	159,205	159,205
	309,013,179	**241,700,958**	**232,628,951**
Provision for Impairment	(4,887,690)	(4,887,690)	(4,887,690)
	304,125,489	**236,813,268**	**227,741,261**

The fair value of the Building constructed at Ehaliyagoda has been transferd to provision for impairment Due to non availability of resale value under Road Development Authority disclousurs.

NATIONAL GEM AND JEWELLERY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2015

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	**2015**	**2014**
Capitalized Amount		
As At 01 January	**70,909.00**	**70,909**
Initial Cost Incurred	-	-
Capitalized During the Year	-	-
As At 31 December	**70,909.00**	**70,909**
Amortization		
As At 01 January	**42,546.30**	**40,182**
Amortization for the Year	2,364.00	2,364
As At 31 December	**44,910.30**	**42,546**
Carrying Amount	**25,998.70**	**28,363**

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	**Intangible Assets**	**As At 31 Dec. 2015**	**Additions / (Disposals)**	**As At 31 Dec. 2014**
	5.1 At Cost			
	Computer Software	2,677,306.00	147,250	2,530,056
	Total	**2,677,306.00**	**147,250**	**2,530,056**

		As At 31st Dec. 2015	**Charge for the Year**	**As At 31st Dec. 2014**
	5.2 Amortization			
	Computer Software	2,504,005.68	122,866	2,381,140
	Total	**2,504,005.68**	**122,866**	**2,381,140**

5.3 Net Carrying Values	**As At 31st Dec. 2015**	**As At 31st Dec. 2014**
Computer Software	173,300.32	148,916
	============	============

6	**Deferred Tax Asset / (Liability)**	**2015**	**2014**
	Balance at 01 January	(16,923,372.00)	(16,062,221)
	Adjustment	(3,139,972.00)	(861,151)
	Balance at 31 December	**(20,063,344.00)**	**(16,923,372)**
		============	============

7	**Other Assets**	**2015**	**2014**
	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**		**2015**	**2014**
	Unlisted Investments	**(Note 8.1)**	**1,200,010**	**1,200,010**
8.1	**Unlisted Investments**	**No. of Shares**		
	The Associated Newspapers of Ceylon Limited	200,000	200,000	200,000
	G.S.M.B.Technical Services(PVT)Ltd	100,000	1,000,000	1,000,000
	LGL (Pvt) Ltd	1	10	10
			1,200,010	**1,200,010**
			============	============
9	**Inventories**			
	Consumables Stock		2,340,774.90	1,974,996
	Gems - Gauda Centre		183,547.54	183,548
	Printing and Stationery Stock		2,228,569.83	1,983,265
			4,752,892.27	**4,414,809**
			============	============
10	**Receivables**			
	Receivables		41,065,511.47	29,201,426
	Provision for Impairment		(1,407,972)	(1,407,972)
			39,657,539.47	**27,973,454**
	Others		2,243,960.21	1,111,694
			41,901,499.68	**28,905,148**
			============	============
11	**Held-to-Maturity Investment (HTM) Carrying Amount at Amortized Cost**			
	Treasury Bills		552,962,321.53	482,639,856.21
12	**Deposits and Advances**			
	General Deposit		37,024,684.46	36,407,684.46
	Others		14,525	19,525.00
	Rent Deposits		-	-
	40% Land Auction		-	-
	Security Deposits		34,500.00	34,500.00
	Advance to Suppliers		6,103,249.78	9,117,109.34
			43,176,959.24	45,578,818.80
	Provision for Impairment		(1,433,947.00)	(1,433,947)
			41,743,012.24	**44,144,872**
			============	============
13	**Employee Loans & Advances**			
	Advances		66.961.28	48,750.39
	Welfare Debts for Dead Loan		142,030.27	256,842.63
	No pay Leaves		53,033.31	219,982.67
	Vehicle Loan		224,000.24	205,000.24
	Loans		11,196,467.41	13,377,424.73
			11,682,492.51	**14,108,003**
			===========	===========

14	**Other Financial Assets**	**2015**	**2014**
	Fixed Deposits	764,439,445.50	739,722,904.47
	State Institution Temporary Surplus Fund	15,302,717.03	14,409,720.61
		779,742,162.53	**754,132,625**
		============	============
15	**Cash and Cash Equivalents**		
	Cash and Bank Balances - LKR	34,442,239.93	30,079,962.54
	Bank Balances - Foreign Currency	562,167.35	3,468,032.12
	Petty Cash	-	-
	Investments in REPO	20.885,600.00	10,000,000.00
		58,890,007.28	**43,547,994**
		============	============

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 workers 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

Retirement Benefits Obligation	2015	2014
Balance at 01 January	31,075,156.25	23,995,857
Expense Recognized in the Statement of Comprehensive Income **note** 22.1	8,389,972.00	8,259,512
Benefit Paid Year 2014	(382,002.00)	(1,180,212)
Adjustments made year 2015	-	-
Balance at 31 December	**39,083,126.55**	**31,075,157**
	============	============

22.1 **Expense Recognized in the statement of comprehensive income**

Interest Cost	3,042,258.00	2,142,830
Charge for the Year	1,891,744.00	1,495,199
(Gain) / Loss Arising From Changes in the Assumptions	3,455,970.00	4,621,563
	8,839,972.00	**8,259,512**
	============	============

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 [%]	10	9
Future Salary Increases Average - Salary [%]	1.3	1.3
Staff Turnover Factor [%]	2.2	2.4
Retirement age [Yrs]	60	60

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

23 Liability to Make Lease Payments

Liability to Make Lease Payments	2015	2014
Gross Liability	-	-
As At 01 January	546,914.00	573,239
Recognized During the Year	-	-
Payments Made During the Year	(26,325.00)	(26,325)
As At 31 December	**520,589.00**	**546,914**

Finance Cost		
As At 01 January	534,564.00	559,329
Recognized During the Year	-	-
Finance Cost Recognized in Comprehensive Income During the Year	(24,992.00)	(24,765)
Finance Cost Allocated to Future Periods	**509,572.00**	**534,564**
Net Liability As At 31 December	**(11,017.00)**	**(12,350)**
	============	============

23.1 Classification of Liabilities

Settlements Fall Due Within One Year		
Gross Liability	26,995.00	26,995
Finance Cost Allocated to Future Periods	(25,186.00)	(24,765)
	1,809.00	**2,230**
	============	============

Settlements Fall Due More Than One Year

Gross Liability	157,950.00	144,787
Finance Cost Allocated to Future Periods	(153,262.00)	(139,881)
	4,688.00	**4,869**
	============	============

Settlements Fall Due More Than Five Years

Gross Liability	335,643.00	375,132
Finance Cost Allocated to Future Periods	(331,123.00)	(369,881)
	4,520.00	**5,251**
Total Settlements Fall Due More Than One Year	**9,208.00**	**10,120**
Total Net Liability As At 31 December	**11,017.00**	**12,350**
	============	============

24 Payables

Creditors	155,565,953.92	98,136,434
Retention from Contractors	2,568,872.60	2,568,873
Other	236,316.39	3,236,639
	158,371,142.91	**103,941,946**
	============	============

25	**Deposits and Advances Received**	**2015**	**2014**
	Receipts in Advance	18,603,950.00	16,659,550.00
	Employee Security Deposits	74,500.00	64,500.00
	Advances from Customers	15,896.26	15,896.26
	Over recoveries from Employees	2,066.00	1,500.00
	Land Dispute Deposits	63,344,856.91	58,283,065.01
	Tender Deposit	4,569,500.00	14,836,500.00
	Shop Holder Deposit WTC	16,923,769.48	16,032,239.67
	Gem Museum Fund	125,997.00	125,997.00
	Export Commission Deposits	280,000.00	280,00.00
		103,940,535.65	**106,299,348**
		============	============

26	**Statutory Payable**		**2015**	**2014**
	Corporate Tax	(Note 26.1)	102,866,235.99	116,716,513.55
	Value Added Tax		4,824,074.35	4,527,830.92
	Withholding Tax		(11,743,760.65)	(11,743,760.65)
	Retained Gem Auction Tax 2.5%		56,901,930.93	37,374,163.13
	Nation Building Tax		1,858,935.16	917,913.52
	Stamp Fees		2,618,983.99	2,299,667.27
			(118,341.04)	(37,464.04)
			157,208,058.73	**150,054,864**
			============	============

26.1 Corporate Tax

	2015	2014
Balance as at 01 January	116,716,513.55	60,105,954.59
Current Tax for the Year	127,866,235.62	146,716,514.35
Payment During the Year		
Settlement of Previous Year Liability	(123,574,741.18)	(46,318,312.39)
- Self Assessment Payments	(10,000,000.00)	(30,000,000.00)
Set off with Tax Credits - ESC	-	-
- WHT	-	-
- Notional Tax	-	-
Adjustment on (Under) / Over Provision in Previous Year	(8,141,772.00)	(13,787,643.00)
Balance as at 31 December	**102,866,235.99**	**116,716,514**
	===========	===========

27 Provisions and Accrued Expenses

Provision for Legal Claims	-	195,300.00
Accrued Expenses	32,917,783.11	48,831,055.67
	32,917,783.11	**49,026,356**

28 Revenue

	2015	2014
Land Auction - Crown Land	9,107,087.50	-
Land Auction - LRC	229,489,656.17	22,553,180
Service and Appeal License Fees	607,556.00	688,517
Gemming License Fees	33,643,453.03	35,767,987
Dealers License Fees	35,728,410.40	33,627,320
Service Fees for Gifts and Samples	419,000.00	353,115
Gem and Jewellery Export Service Fee	113,956,667.16	126,129,260
Lapidary License Fees	349,980.00	239,320
Service fee - Geuda Export	6,708,634.66	11,279,538
LDO Land / Mineral Tax	3,472,067.90	4,630,300
Income from Fines	15,756,005.10	12,182,105
Gem Auction Permits	713,716.50	924,248
Gem Testing Charges	10,226,725.10	12,672,514
Income from Assay Office	3,345,765.59	3,535,422
License copying Charges	135,223.22	138,780
Service Fee - Katunayaka Diamond Center	5,359,927.27	8,965,237
Income from Gem Parcel Clearing	1,830,300.00	1,549,194
Foreign Currency Acceptance Permit	1,200.00	100
Environmental Protection	1,770,000.00	101,080
BACO Service Charges	16,179,677.89	20,311,166
Inspection Charges	38,768,272.48	58,513,809
Colour and 3D Cards	1,635,085.95	1,933,542
Sale of Gem	40,746,001.02	227,935,818
Forfeited Gemming	10,354,250.00	6,711,,750
	580,394,662.94	**590,723.305**

29	**Other Income**	**2015**	**2014**
	Miscellaneous Income	511,835.11	3,427,415
	W.T.C and Rathnapura Booth	29,062,220.07	22,222,597
	Sales of Books	10,230.00	8,100
	Dividends	180,000.00	540,000
	Rental Income	951,110.00	869,650
	Proceed of Auctioned Items	1,838,150.00	46,320
	Profit on Disposals of Fixed Assets	(44,849.79)	-
	Income from Insurance Agencies	393,743.83	430,977
	Sale of Jewelery	1,024,196.05	274,915
	Life Membership Fee- WTC	-	137,210
	Ordinery Membership fee- WTC	-	(85,499)
	Exhibition expences – Foreign (recovered)	58,430,038.53	-
		92,356,673.80	**27,871,684**
		============	============

30	**Administration Expenses**	**2015**	**2014**
	Subscription	720,444.57	931,295.12
	Entertainment (Local)	587,648.60	431,673.33
	Telephone Charges	7,177,338.74	5,306,097.69
	Postage and Stamps	1,037,203.04	1,028,906.04
	Internet Charges	43,852.75	620,736.34
	Telex and Fax Charges	163,084.86	81,641.33
	Expenses of Board Members	831,000.00	813,179.49
	Rent	5,306,658.14	4,664,455.68
	Electricity	7,919,755.91	10,122,429.03
	Rates and Taxes	857,273.40	893,662.00
	Newspapers and Periodicals	60,117.00	177,141.54
	Water tax and Charges	1,179,203.95	1,016,391.13
	Advertising	848,055.00	745,180.00
	Transport	456,671.20	247,026.22
	Insurance	2,584,190.56	2,806,367.81

Legal Fees	481,860.73	379,791.75
Audit Fees for the Year	600,000.00	1,250,000.00
Survey Fees	821,670.00	756,986.08
Management Consultation	52,000.00	954,988.00
Maintenance of Building	5,050,957.76	3,703,878.99
Maintenance of Equipments	1,838,528.95	2.340,845.06
Security Services	9,446,947.50	5,196,008.24
Seminars and Training (Local)	3,097,941.93	2.816,234.42
Raid Expenses	725,806.00	531,567.00
General Auction Expenses	3,837,976.57	1,081,440.72
Donation	2,790,000.00	-
Consumable Assets	58,980.00	165,157.00
Office Supplies	2,643,354.12	2,372,153.65
Amortization of Right-to-use Land	2,364.00	2.364.00
Printing and Stationery	1,289,736.51	1,214,703.56
Laboratory Supplies	553,285.43	757,130.00
Environmental Expenses	5,780,924.06	2,324,645.80
Depreciation	29,884,211.03	27,371,311.81
Amortization of Intangible Assets	122,866.00	2058,875.20
Rent W.T.C	21,753,658.40	15,681,325.14
Electricity Paid W.T.C	1,756,047.44	1,692,345.78
Legal Fees W.T.C	-	87,596.35
Stamp Fee-WTC	-	729,650.00
Maintenance of Motor Vehicle	4.553,850.53	4,419,448.21
Oil and Fuel	6,280,943.24	9,341,431.52
Tyres and Tube	918,352.60	865,218.58
License and Insurance Motor Vehicle	2,314,362.84	1,144,737.41
Parking Charges	130.00	30.240.00
Vehicle Insurance Compensation	(170,934.92)	(89,122.00)
General Expenses	1,013,592.02	1,888,365.49
Project Expenses	8,960,050.54	15.381,395.31

Bank Charges	358,498.56	253,764.97
Unclaimed NBT	610,797.14	627,948.37
Research and Development	-	780,790.00
Gem Miners scholerships Expenses	516,000.00	-
	147,716,986.70	**136,149,399**
	============	============

31	**Personnel Expenses**	**2105**	**2014**
	Salaries and Allowances	82,345,143.30	78,222.833.25
	Acting Allowances / Risk Allowances	74,617.47	718,611.23
	Non Subject to E.P.F Salaries & Allowances	38,904,948.47	13.691,240.07
	Employees Provident Fund	12,472,072.00	12,425,912.94
	Employees Trust Fund	3,069,547.02	2,502,195.20
	Overtime	3,982,488.78	3,751,131.15
	Payment for Working on Holidays	36,595.50	162,775.30
	Awards (Gold Medals)	209,200.00	221,623.00
	Leave Bonus	4,740,074.81	4,611.374.85
	Interest Payed on Staff Housing Loans	259,303.71	213,894.47
	Employee Incentives	32,593,369.94	24,131,405.43
	Gratuity	8,389,971.97	8,259,512.14
	Travelling (Local)	2,859,955.25	2,226,991.57
	Uniforms for Staff	736,415.42	246.345.45
	Staff Welfare	9,837,982.82	7,311.574.57
	Labour Compensation	-	241,232.72
	Medical Fees	9,165,213.00	5,559,197.36
	Transport allowance	8,634,500.00	7,836,900.00
		218,311,400.46	**172,334,751**
		============	============

32	**Promotional Expenses**	**2015**	**2014**
	Travelling - Overseas	2,622,003.44	11,233,535.09
	Exhibition Expenses- Local	6,714,258.48	29.398,234.05
	Exhibition Expenses- Foreign	76,733,818.31	9,700,643.03
	Publicity - Local	3,275,781.22	4,377.974.00
	Publicity - Foreigh	945,203.89	-
	Others	2,067,246.85	1,678,529.64
		92,358,312.19	**56,388,916**
		============	============

33	**Net Finance Income**		
	Interest Income		
	Interest on Fixed Deposits and Treasury Bills	107,155,891.31	60,761,139.46
	Interest on Staff Loan	489,177.52	483,937.31
		107,645,068.83	**61,245,077**
	Interest Expenses		
	Finance cost on Liability to Make Lease Payments	24,992.00	24,765.00
		(24,992.00)	**(24.765)**
		107,620,076.83	**61,220,312**
		============	============

34	**Income Tax Expenses**		**2015**	**2014**
	Current Tax Expense	**(Note 34.1)**	127,866,235.62	146,716.514
	Adjustment on (Under)/Over Provision in Previous Yea		(80,923.30)	-
	Deferred Tax Charge / (Reversal)	**(Note 6)**	3,139,971.12	(1.368,972)
			130,925,283.44	**145,347,542**
			============	============

34.1 Reconciliation Between the Current Tax Expense and the Product of Accounting Profit Accounting Profit Before Taxation	2015	2014
Profit Accounting Profit Before Taxation	**321,984,714**	**314,942,235**
Aggregated Disallowable Items	41,953,526	45,902,450
Aggregated Allowable Items	(61,552,099)	(31,959,862)
Income from Other Sources	(145,838,399)	(84,877,320)
Profit / (Loss) from Trade or Business	**156,547,742**	**244,007,503**
Other Income Liable for Tax - Interest Income	145,658,399	84,337,320
Total Statutory Income	**302,206,141**	**328,344,823**
Qualifying Payment	(75,000,000)	-
Tax Losses Utilized	(1,634,439)	(4,625,990)
Assessable Income / Taxable Income	**225,571,702**	**323,718,833**
Tax Charged at Statutory Tax Rate of 28%	63,160,077	90,641,273
Tax on Gross Dividend	64,706,159	56,075,241
Current Tax on Ordinary Activities for the Year	**127,866,236**	**146,716,514**
	===========	===========

Tax Losses

Loss Brought Forward	-	-
Loss Incurred	-	-
Loss Utilized	-	-
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. Expenditure on Working Progress had been done for the consultancy and other expences in relation to constuction of Ehaliyagoda Buiding.

36. Events Occurring after Reporting Period

There were no events occurred, which required adjustments or disclosure in these financial statements between the 31st 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.

Lanka Gemologicle Laboratory (pvt) Ltd was established with the Sri Lanka Gem & Jewellery Association out of the funds collected from Gem & Jewellery Exports and the balance in the fund as at 31st December 2014 amonts to Rs. 126,512,567.

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.	2015	2014
Remuneration and Other Short-Term Employee Benefits	1,200,000	831,000
Post Employment Benefits		-

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	169,919,145.38	
	Withdrawal of Fixed Deposits and Treasury Bills	(55,000,000.00)	1,317,401,767
	Investment in (REPO)	40,000,000	
	Withdrawal of REPO	-	20,000,000
Other Government Related Entities	Investment in Shares	1,200,010	1,200.010

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. } අයිආර්එන්/ඩී/එන්ජීජේ/1/15/1   ඔබේ අංකය / உமது இல. / Your No. }   දිනය / திகதி / Date } 2016 සැප්තැම්බර් 19 දින

සභාපති,

ජාතික මැණික් හා ස්වර්ණාභරණ අධිකාරිය.

ජාතික මැණික් හා ස්වර්ණාභරණ අධිකාරියේ 2015 දෙසැම්බර් 31 දිනෙන් අවසන් වර්ෂය සඳහා වූ මූල්‍ය ප්‍රකාශන පිළිබඳ 1971 අංක 38 දරන මුදල් පනතේ 14(2)(සී) වගන්තිය ප්‍රකාර විගණකාධිපති වාර්තාව.

මාගේ සමාංක හා 2016 ජූලි 28 දිනැති ලිපියට යොමුවේ.

02. ඉහත සඳහන් ලිපිය සමඟ එවන ලද මාගේ වාර්තාවේ ඉංග්‍රීසි අනුවාදය මේ සමඟ එවා ඇත.

ඒ.ඩී.එම්.ගුණසිංහ
අතිරේක විගණකාධිපති
විගණකාධිපති වෙනුවට

පිටපත - 1. ලේකම් - මහවැලි සංවර්ධන හා පරිසර අමාත්‍යාංශය.

2. ලේකම් - මුදල් අමාත්‍යාංශය.

අංක 306/72, පොල්දුව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, . - இல. 306/72, பொல்துவ 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

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය எனது இல. My No.	IEN/D/NGJ/1/15/1	ඔබේ අංකය உமது இல. Your No.		දිනය திகதி Date	28 July 2016

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 2015 in terms of 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 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive 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 issued 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.

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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about

අංක 306/72, පොල්දුව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, .- இல. 306/72, பொல்துவ 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

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 judgement, including the assessment of the risks of material misstatements 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 2015 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

(a) Sri Lanka Accounting Standard 16

Even though 14 vehicles of zero carrying cost amounting to Rs.36,310,655 had been further engaged in running activities by the Authority, action had not been taken to revalue them in order to present a fair value of the said vehicles.

(b) Sri Lanka Accounting Standard 17

The value of lease installments amounting to Rs.2,228,028 paid for 3 vehicles purchased on lease basis had been brought to account instead of accounting their fair values.

(c) Sri Lanka Accounting Standard 37

A lawsuit had been instituted against the Authority requesting a compensation of Rs.500,000 by an employee of the Authority. Required provisions had not been made for it in the financial statements and lawsuits instituted against the Authority had not been disclosed in notes to accounts.

2.2.2. Accounting Deficiencies

The following observations are made.

(a) CCTV Camera System valued at Rs.195,000 purchased in the year under review had been brought to account as Revenue expenditure instead of accounting as Fixed Assets.

(b) The value of two vehicles obtained on lease basis several years ago and currently in use had not been stated in the statement of financial position.

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 18(1) of the National Gem and Jewellery Authority Act, No.50 of 1993	Even though it had stated "when a person has acquired 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.", the Authority had not decided the percentage of such royalty. Even though an income amounting to Rs.352,774,990 approximately earned by auctioning Bogawanthalawa and some other lands in the year under review, the Treasury had not been given any fraction of royalty.
(b) The Finance Act, No.38 of 1971	
(i) Section 11	A sum of Rs.1,317,401,767 had been invested in Treasury Bills and Fixed Deposits without obtaining the approval of the Minister of Finance.
(ii) Section 13(8)	Steps proposed to take after taking into consideration the Audit Reports issued for the year 2014 and preceding years by the Board of Control in terms of Section 13(7)(a) had not been presented to the Auditor General.
(c) Sections 1.10.1 and 1:11:1 of Chapter 11 of Establishments Code of Democratic Socialist Republic of Sri Lanka	Even though a request should be made to the Department of Management services through the Secretary to the Ministry to backdate an appointment, it had not been done so in backdating the appointment of the post of Assistant Director (Valuation / Gemologist). Further, if the seniority of the officer appointed before that is changed due to backdating, it should not be done. Contrary to that the

	Authority had backdated the appointment of the above post.
(d) Section 01 of the Department of Management Services Circular No.02/2015 dated 09 December 2015.	Even though the bonus payable per employee for the year was Rs.13,500, bonus of Rs.55,000 per employee had been paid in the year under review. Accordingly, a sum of Rs.10,200,000 had been overpaid.
(e) Paragraph 3.2 of Public Enterprises Circular No. PED 1/2015 of 25 May 2015.	In providing additional fuel to the officers who were entitled official vehicles, fuel amounting to Rs.338,887 had been provided for 7 officers through fuel orders of the Authority without the approval of the Board of Directors and Secretary to the Ministry.
(f) Public Enterprises Circular No. PED 56 of 27 January 2011.	Even though a sufficient amount should have been kept in hand for the working capital requirements for the next 6 months and all additional balance money should be transferred to the Consolidated Fund, it had not been done so.
(g) Internal Circular No. NGJA 1/1 dated 12 January 2015	Even though the exporting gems under service fee waiver facility had been suspended, contrary to that, the Authority had given permission to export gems under service fee waiver facility. Accordingly, income from service charges amounting to Rs.28,500,000 approximately had been deprived of in the year under review.

2.4 Transactions not supported by appropriate authority

In paying incentives for the year under review, incentives totalling Rs.19,063,370 had been paid to all employees without the approval of the Department of Management Services and the Board of Directors as equal to the gross salary of two months (including allowances). Further, a sum of Rs.4,740,075 had also been paid without an approval of the Department of Management Services for all the employees of the Authority for unavailed leave. Likewise, incentives amounting to Rs.12,481,405 and a sum of Rs.4,611,375 for un-availed leave had been paid without the approval in the preceding year, as well.

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the financial result of the Authority for the year under review had been a pre-tax net profit of Rs.246,984,714 as compared with the corresponding net profit of Rs.314,942,235 for the preceding year, thus indicating a deterioration of Rs.67,957,521 in the financial result for the year under review. Even though the income earned from auctioning lands had been increased by Rs.216,063,564 in the year under review, decrease of the income from sale of Gems and export service charges by Rs.199,362,410 and increase of expenditure of international exhibition by Rs.67,033,175 had mainly attributed to the deterioration of the profit in the year under review.

3.2 Analytical Financial Review

The following observations are made.

(a) In analyzing the financial results of the Authority for the preceding years, a significant increase had been indicated in the net profit after taxes from the year 2013 to the year under review (except the year 2015). In taking into consideration employees' remunerations, government taxes and depreciation on non-current assets, the entire contribution of the Authority had been Rs.273,309,778, Rs.512,421,306 and Rs.492,320,370 respectively. Accordingly, the contribution in the year 2014 had increased by 87 per cent as compared with the year 2013, but such increase in the year under review was 80 per cent.

(b) No. of employees of the Authority had been increased within the range from 12 per cent to 28 per cent since the year 2012 and the payment of remuneration to employees had also been continuously increased. Even though the payment of employees' remuneration amounted to Rs.114,048,303 in the year 2012, it was Rs.215,451,445 in the year under review, showing an increase of 89 per cent as compared with the year 2012.

(c) Expenses related to 6 objects had been abnormally increased by Rs.84,250,063 as compared with the preceding year and the percentage of increase of such expenses ranged from 39 per cent to 691 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Even though the prime objective of the establishment of the Authority in terms of the National Gem and Jewellery Authority Act, No. 50 of 1993 was for development, regularization and promotion of Gem and Jewellery industry, exportation of Gem and Jewellery by 13 per cent and issuance of licenses by 8 per cent had been decreased in the year under review as compared with the year 2014.

(b) Physical progress of seven activities of the Authority according to the Action Plan had been at the level of 0 per cent to 96 per cent.

(c) Even though Assaying and Hallmarking Division had estimated an income of Rs.13,800,000 according to the Action Plan by testing 27,025 items, only an income of Rs.3,563,677 had been earned by issuing actual test reports for 9,605 items. Accordingly, physical progress and financial progress had been at minimum levels of 33 per cent and 26 per cent respectively. This was a decrease of about 24 per cent as compared with the income of the preceding year.

(d) The Authority had incurred a preliminary expense of Rs.2,900,874 for the establishment of an Assaying laboratory and a Gem testing laboratory at Gold Centre in Colombo without an approval of the Ministry and the Board of Directors and not included in the Action Plan and Budget Proposals in the year 2014. The Gem testing laboratory and the Assaying laboratory had earned income of Rs.44,890 and Rs.347,077 respectively for the period from September 2014 to 31 December 2015. Accordingly, the total income of these two laboratories was Rs.391,967 during the said period, and the rent for the relevant building had been Rs.1,478,400 and as such, the unrecoverable expenditure was Rs.1,086,433.

(e) Even though budgetary provision of Rs.13,000,000 had been made for updating gem-mined lands damaged and rehabilitation of the gem-mined lands abandoned in the year under review, any activity in connection with it had not been exercised.

4.2 Management inefficiencies

The following observations are made.

(a) Gazette Notifications had not been publicized and made aware of the general public on license charges, export service charges, Gem and Jewellery testing fees and royalty recovered by the Authority.

(b) Even though the Authority is empowered to grant the rights for external parties to gemming in State owned lands through auctioning gem lands in terms of Section 18(1) of the Act, contrarily the license for gemming in connection with the pilot project of gemming of Bogawantalawa had been obtained in the name of the Authority.

(c) Even though in terms of the Sections 18(2) and 18(4) of the National Gem and Jewellery Authority Act, the gemstones found from gemming projects should be acquired by the Authority and a portion of the money received from sale of such gemstones should be allocated as a royalty, a sum of Rs. 528,786,392 had been earned through the entire Heraniyawaka, Bogawanthalawa and Seethawaka River Project (Stage one and Two) and paid a sum of Rs.215,204,760 to external parties, but any amount whatsoever had not been remitted to the Treasury as the royalty.

(d) In distributing profits between the private entrepreneur and the Authority who joined the project in the implementation of gemming project, that percentage should be decided on a logical basis with a fair transparency for every project. Nevertheless in comparing the following four projects, percentage of distribution of profits had been decided as to personalize to each entrepreneur contrary to that and as such, it was problematic in audit.

Project	Percentage of profit belongs to the Authority	Profit earned by the Authority	Percentage of profit belongs to the entrepreneur	Amount paid to the entrepreneur
		Rs.		Rs.
Seethawaka (Stage 1)	54.50	135,868,345	25.50	63,571,428
Seethawaka (Stage 2)	73.25	128,247,450	6.75	11,818,025
Heraniyawaka	30.0	15,948,112	51.0	27,111,790
Bogawanthalawa	30.0	9,031,670	65.0	19,568,618

(e) Even though a sum of Rs.92,948,578 had been granted to a private Institution for the construction of a laboratory in the year 2009, it had not been fulfilled even up to the date of Audit, July in 2016. Even though the Board of Control had decided to take over such money back to the Authority, such activities had shown a slackness.

(f) Even though in deciding the export selling price of precious Gems it should have been decided by identifying each gemstone separately, it had not been done so and prices had been decided as a lot and exported. As a result, the correct price of the stock of gemstone had not been estimated and their sale prices had been undervalued and as such, a risk of decreasing the income from service charges recoverable to the Authority was observed.

(g) As the Computer software system purchased for stock purposes by the Authority by paying a sum of Rs.1,485,680 in the year 2006 had been defective, manual registers had been maintained instead. It was observed that such information was not accurate, as these registers had not been updated as well.

(h) Even though an income of Rs.3,200,000 had been estimated in participating 16 exporters representing the Authority in the World Expo exhibition, only an income of Rs.400,000 had been received by the Authority. But a sum of Rs.990,000 had been spent for the combined and incidental allowances of the officers participated in that representing the Authority.

4.3 Transactions with contentious nature

(a) The expenditure incurred by the Divisional Secretary of Dehiowita amounting to Rs.1,107,257 for the ceremony held to distribute benefits of Seethawaka Ganga Project had been reimbursed by 12 Cheques under the financial limit of the Assistant Director (Enforcement and Regional Development) without a certificate of the Director (Finance) by the Regional Office at Eheliyagoda without being reimbursed from the Head office of the Authority.

(b) A sum of Rs.17,420,000 to disabled persons and Samurdhi beneficiaries of the area and a sum of Rs.16,246,121 to religious places and Pradesheeya Sabhas selected without a transparency had been paid out of the income from the second stage of the Seethawaka River Gemming project.

4.4 Idle and Underutilized Assets

Fixed Assets amounting to Rs.93,573,214 had been purchased to the Division of Assaying and Hallmarking in the year under review and the total Assets as at 31 December 2015 was Rs.123,191,247. Assets valued at Rs.96,942,288 of it had remained idle even by February 2016.

4.5 Personnel Administration

The following observations are made.

(a) Twelve Management Assistants and 06 Field Assistants had been recruited without an approval of the Department of Management Services.

(b) Fifteen Employees recruited on contract basis for the post of Mechanical Mine Supervisor had been awarded appointments by changing the designation as Field Assistant (Casual) without an approval of the Department of Management Services.

(c) In Addition, the other employees recruited for the post of Field Assistant had been engaged to perform the duties at the Head Office instead of engaging them in field work.

(d) An unqualified person had been recruited for the post of Management Assistant according to the Scheme of recruitment of the Authority and Salaries and allowances amounting to Rs.380,636 had been paid in the year under review.

(e) Certificates of educational and professional qualifications presented by the officers of Authority had not been proved from the relevant Institutes as to whether they were genuine.

(f) Even though the performance should be appraised annually in awarding annual salary increments, trainings and promotions to Officers of non-executive grade, performance appraisal of any officer had not been made after the year 2011.

(g) Even though the appointments of the officers of the Sri Lanka Administrative Service should be made by the Public Service Commission and an officer from the Administrative Service had been appointed as the Director General of the Authority by the Secretary to the Ministry of Mahaweli Development and Environment, contrary to it, subject to the covering approval of the Public Service Commission on secondment basis and the approval of the Public Service Commission had not been obtained even by July 2016.

(h) The cost per employee had been increased by about 66 per cent by the year under review as compared with the year 2011.

5. Accountability and Good Governance

5.1 Corporate Plan

The following functions in Section 14 of the National Gem and Jewellery Authority Act, No.50 of 1993 had not been included into the Corporate Plan.

(i) To train and promote persons especially on heat treatment and gem cutting for the development of the industry.

(ii) To take necessary steps to generate confidence in the gem and Jewellery industry among prospective buyers;

(iii) To prevent unlawful gemming and the unlawful removal of gems from Sri Lanka;

(iv) To provide the necessary liaison among the Government Departments in order to promote gem and jewellery industry in Sri Lanka;

5.2 Action Plan

A proper arrangement to check the progress of fulfilling targets of the annual Action Plan had not been made.

5.3 Internal Audit

The following observations are made.

(a) An Independent Cadre required to perform Internal Audit functions had not been attached and appropriate training programmes had not been executed for the improvement of professional knowledge in auditing of internal audit personnel.

(b) Even though the Internal Auditor should bear impartial, fair and unbiased attitudes personally, it was observed that acting the Internal Auditor of the Authority as the Treasurer of its Welfare Society and Valuer of gemstones at rough gem auctioning and supervisory activities in opening of bids was a barrier to the independence of Internal Audit.

(c) Even though it had targeted to audit the income earned from auctioning of gem lands and income of gem sales (Special projects), relevant audits had not been done.

5.4 Procurements and contract procedure

Even though an expense amounting to Rs.93,245,566 had been incurred for purchasing equipment for the laboratory of assaying, legal agreements had not been entered into with the suppliers selected for the purpose. Further, as quotation of one bid had been deceitfully altered, a sum of Rs.771,600 had been overpaid.

5.5 Budgetary Control

Variations ranging from 20 per cent to 472 per cent in ten items of estimated income and expenses and actual income and expenses of the budget were observed. A sum of Rs.2,854,498 had been earned from two sources of income which were not included in the budget. Only the expenses had been stated for some items. Accordingly, it was observed that the budget had not been prepared on an realistic basis and it had not been made use of as an effective instrument of management control.

5.6 Unresolved Audit Paragraphs

The following observations are made.

(a) As the payment of salary since May 2013 had been made by determining the salaries in placing 8 salary steps ahead in making recruitment to the post of Director (Human Resource and Administration). The overpaid salaries amounting to Rs.597,193 had not been recovered even by March 2016.

(b) An officer over the age of 60 years had been recruited as an Advisor under contract basis only on the approval of the Board of Control from October 2012 without an approval of the Cabinet of Ministers contrary to Section 9.1 of Chapter 11 of the Establishments Code. Monthly allowance and other incentives amounting to Rs.867,143 in the year under review and Rs.1,733,143 in the preceding two years had been paid to him.

(c) Applications had been called for by publishing a newspaper advertisement for making recruitment for the post of Director (Export services / Export marketing) and the relevant interview had been conducted on 03 January 2014. Despite there were three qualified candidates with required qualifications, relevant appointment had been awarded to a person who had not qualified and salaries and fuel allowance amounting to Rs.2,834,838 had been paid by the year under review.

5.7 Fulfillment of environmental and social responsibilities

Large scale environmental damages had been observed from mechanical gem mines and as the rehabilitation activities of such mine pits were weak environmental as well as public health had been caused serious damages. The risks of inability to use Gem mines close to paddy fields for cultivation purposes had also been arisen. It was also observed that there was a risk of earth slips in Ratnapura District due to tunneled mines.

6. Systems and Controls

Weaknesses 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

Control accounts had not been maintained for Regional Offices and narrations in the journal entries had not been properly stated.

(b) Vehicle control

The original running charts had not been presented monthly to audit and reports of running cost of vehicles for each vehicle had not been prepared.

(c) Human Resource Management

It was frequently observed that recruitments and promotions had been made contrary to Management Services circulars and time and money spent unnecessarily as lawsuits had been instituted against the Authority due to informal termination of service. In assigning the employees for office and field duties, attention had not been paid for the qualifications of employees.

(d) Control of operating activities

(i) Organization of International Exhibitions

It was observed that incurring expenses exceeding the approved budgetary limits and leaving the unqualified officers and officers abroad outside the subject of promotional activity for organizing activities of the exhibitions.

(ii) Land auctions and Gem Auctions

The liaison and legal activities required for getting freed the state lands which have gem for gemming had been at a weak level.

(iii) Exportation of Gem

As the values of gemstones had been under-estimated on a large scale in exporting gem, the income earned from service charges had decreased.

(e) Stock Control

Shortages and excesses had existed in the Stock Ledger balance and the physical stock. Even though the Stores Division should have been operated under an Accountant of the Accounts Division, purchase of goods, auctioning the damaged items of the Authority and maintenance of Stores Division had been carried out under the Supplies Manager. Therefore it was observed that the internal control over Stock control had remained at a weak level.

H.M.Gamini Wijesinghe
Auditor General