NATIONAL GEM AND JEWELLERY AUTHORITY

ANNUAL REPORT

2016

Ministry of Mahaweli Development and Envioronment

NGJA/6/Annual Report/2016 2017-12-19

Hon. Minister of Mahaweli Development and Envioronment

Ministry of Mahaweli Development and Envioronment

"Sobadam Piyasa",

No. 416/C/1, Robert Gunawardana Mawatha,

Battaramulla

Hon. Minister,

ANNUAL REPORT FOR THE YEAR 2016

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 and JewelleryAuthority for the year 2016.
2. Statement of Financial Position as at 31st December 2016 and the Comprehensive Income Statement for the year ended 31st December 2016 of the Authority duly audited by the Auditor General.
3. The Report of the Auditor General.

Thanking You.

Yours Faithfully,

Dr.D.M.D.O.K.Dissanayake

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 2016

Name		Date Joined	Date Resigned
1. Mr. Asanka Sanjeewa Welagedara – Chairman, National Gem and Jewellery Authority	Chairman	18.11.2015	
2. Mr. Navaratne Bandara Alahakoon – Chairman, Gem and Jewellery Resurch and Training Institute	Member	24.02.2015	
3. Mr. A.K.A. Senaviratne – Additional Secretary, Ministry of Industrial Commerce	Member	03.03.2015	19.12-2016
4. Ms. N. Godakanda – Director General , Department of Management Services	Member	23.04.2015	28.09.2016
5. Ms. T.M.J.Y.P. Fernando – Controller of Exchange, Central Bank of Sri Lanka	Member	20.11.2015	
6. Ms. Indira Malwatte – Chairman, Sri Lanka Export Development Board	Member	02.12.2015	
7. Mr. W.A. Chulananda Perera – Director General, Sri Lanka Customs	Member	04.01.2016	
8. Mr. H.G. Sumanasinghe – Director General, Department of Management Service	Member	09.11.2016	
9. Mr. G.H.A. Perera	Member	05.01.2016	
10. Mr. B.G. Indika Kumudu Samaraweera	Member	26.05.2015	
11. Mr. S.A.D. Upali Sirilal Suraweera	Member	26.01.2016	
12. Mr. N.B. Wegodapola	Member	30.01.2015	25.07.2016
13. Mr. Raja Peiris	Member	30.01.2015	

Senior Management Profile

National Gem and Jewellery Authority

Year 2016

	NAME		DESIGNATION
1.	Mr.Asanka Sanjeewa Welagedara	BSc., M.Phill (University of Peradeniya)	Chairman & Chief Excecutive Officer
2.	Mr.P.N.M. Wickramasinghe	SLAS – Grade I	Director General
3.	Mr.K.L.D. Dayasagara	M.Sc.(University of Peradeniya) FGA **(London, D.Gem.G (Germany) MCA (Sri Lanka)**	Director (Valuation & Gemmology)
4.	Mr.G,W. Amarasiri	B.Sc. Eng (Mining) IESL (AM)	Director (Land,Mining, Envirenment)
5.	Mr.T.D. Kulananda	B.Sc.(Public Administration)	Director (Enforcement & Regional Development)
6.	Ms.A.N.B. Perera	ACA, FMAAT	Director (Finance)
7.	Mr.S.A.T. Bandara	B.Sc., M.I.Chem C, PGD (Gemmology)	Director (Assaying & Hallmarking)
8.	Mr.P.U.K. Thenuwara	MPM, B.Com (sp) HNDA, MAAT	Director (Human Resources & Administration)

Administration Report of the National Gem and Jewellery Authority

For the year 2016 Under 14 (1) of the Finance Act No.38 of 1971

01. The year 2016 marks the 22nd 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. 55.89 (Mn) and at the end of the year It was Rs. 31.426(Mn). Held to Maturity Investments (Treasury bills) at the beginning of the year was Rs. 552.962 (Mn) and at the year end it was Rs. 543.761(Mn).

Other Financial Assets at the beginning of the year was Rs.779.742 (Mn) and at the year end it was Rs. 687.613 (Mn).

3.2 Profitability:

	2011 **Rs. Mn**	**2012** **Rs. Mn**	**2013** **Rs. Mn**	**2014** **Rs. Mn**	**2015** **Rs. Mn**	**2016** **Rs. Mn**
Total Income	250.300	612.004	507.542	679.815	780.370	698.155
Total Expenditure	222.488	261.076	387.458	364.873	458.385	510.950
Profit (Before Tax)	**27.812**	**350.928**	**120.084**	**314.942**	**321.985**	**187.205**

04. Human Resources:

The staff of the Authority reached 274 at the end of 2016 including professionals. Continuous professional development activities were carried out during the year. The staff training cost for the year amounts to Rs. 3.8(Mn) during the year.

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:

	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Gemming Licenses	4,687	5,956	6,565	5,928	5,151	5,240
Gem Dealers Licenses	4,422	4,382	4,429	4,714	4,619	6,102
Lapidary Licenses	179	177	192	199	204	243
Gem Auction Licenses	277	364	624	578	543	491
Total Licenses	**9,565**	**10,879**	**11,810**	**11,419**	**10,517**	**12,076**

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.18.670 (Mn). The Authority had taken action to close the abandoned gem pits and rehabilitate damaged river banks.

07. Special Gem Mining Projects.

During the year special gem mining projects were carried out atBagawanthalawa Estate, and Seethawakaganga, and the income earned was Rs. 109.7(Mn).

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 (IJT) – Japan 20th to 23rd January 2016.
   - ii. HKTDC Hong Kong International Diamond, Pearl &Geml Show – 1st to 5th March 2016.
   - iii. Europe Jewellery Fair – Germany 19th to 22nd March 2016.
   - iv. Jewellery Shanghai Show –5th to 9th May 2016.
   - v. The JCK Las Vegas Show – 3rd to 6th June 2016.
   - vi. China Kunmming Exhibition – 12th to 17th June 2016.
   - vii. 13th China South Asian Expo 2016 – Nanning, Guangxi Zhuang Autonomous Province in China 11th to 14th September 2016.
   - viii. International Jewellery London (IJL) – 6th to 8th Sepmber 2016.
   - ix. Single Country Exhibition (Sri Lanka Gem Fiest) – Japan 24th to 26th of October 2016.
   - x. China International Jewellery Fair Beijing – 10th to 14th November 2016.
   - xi. China International Gold, Jewellery & Gem Fair – Shanghai 18th to 21st November 2016.
   - xii. Vietnam International Gem and Jewellery Fair – 9th to 13th November 2016.
   - xiii. Hong Kong International Gem and Jewellery Show – 15th to 19th September 2016.

2. **Organizing outward delegations from Sri Lanka**
   - i. Delegation to Birmingham (UK) – 7th to 8th of September 2016.
   - ii. Delegation to Vietnam – 2nd to 8th of October 2016.
   - iii. Delegation to Russia – 24th to 28th May 2016.

3. **Facilitation for Inward Delegations to Sri Lanka from foreign countries.**
   - i. Delegation from Antique Collection Association of China – 1st of June 2016.
   - ii. NIPPON MARU Programme – 14th to 17th February 2016.
   - iii. Delegation from Director General of Civil Aviation, Asia & Pacific Region – 1st August 2016.
   - iv. Delegation from future Ambosserders of from 23 countries – 4th August 2016.
   - v. Visit of Diplomatic Tajikistan delegation to Sri Lanka – 13th December 2016.

4. **Sponsored and organized NGJA Pavilion at the Local Trade Fairs and Exhibitions**
   i. ENCO 2016 (Eheliyagoda National College) – 13th to 17th January 2016.
   ii. Golden Jubilee Celebrations of Sri Lanka Tourism Event – 27th to 29th May 2016.
   iii. Uva Wellassa University Educational Exhibition – 8th to 10th September 2016.
   iv. Future Green 2016 (Royal Collage Polonnaruwa) – 23th to 24th September 2016.
   v. Future Green 2016 (Chenkaladi central Collage, Chenkaladi) – 27th to 28th September 2016.
   vi. Sri Lanka Next BMICH – 17th to 19th October 2016.
   vii. Facets Sri Lanka – 1st to 4th September2016.
   viii. "Jewels 2016" organized by Gemmologists Association of Sri Lanka– 16th to 18th December 2016.
   ix. Exhibition in Hali Ela Central Collage – 8th to 9th December 2016.

5. Organized and Conducted Awareness Programmes for Small and Medium Entrepreneurs on New Trends and Standards in Jewellery industry.
   i. 3 Days Workshop on Gem Identification, Jewellery Designing and Jewellery Manufacting – 2nd to 4th March
   ii. Jewllery Designing Awareness programme – Gampola 2nd October 2016

6. Offered Jewellery Manufacturing tools and equipments for Small and Medium Scale Jewellery Manufacturers based rural areas
   i. Distribution of Tools &Equipments for Jewellery manugfactures of Pubudu Jewellery Manufacturing Association based in Kaudupitiya, Gampola 3rd October 2016

7. Monitored and Facilitated Gold Importation of Bankers and Private entities.

8. 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.

9. 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.

10. 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.

11. Facilitation and promotion of "Sri Lanka Gem and Jewellery Exchange" being the only government sponsored gem and jewellery shopping complex in Sri Lanka.

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

13. Provide assistance to import Raw Materials, Tool, Machinery & Equipment used in the gem and jewellery industry on a concessionary duty basis.

14. Facilitate visiting government and private sector delegations on their official or business mission towards the Gems and Jewellery.

15. Advertising in International Magazines
    - Serendib Magazine
    - JNA

9. Gem and Jewellery Exports :

The statistics given below shows the status of Gem & Jewellery exports of Sri Lanka during the last five years and the year 2016 under review:

	2011 **Rs. Mn**	**2012** **Rs. Mn**	**2013** **Rs. Mn**	**2014** **Rs. Mn**	**2015** **Rs. Mn**	**2016** **Rs. Mn**
Gem Exports	10,027.6	14,557	14,805	19,014	18,898	19,044
Gem – NSS Special Project			1,915	3,179	2,792	1,813
Jewellery Exports	1,732.3	2,444	2,194	2,467	2,192	2,240
Geuda Exports	146.7	225	122	140	102	103
Diamond Re-Exports	45,381.1	52,893	37,885	25,633	19,790	14,967
Diamond Jewellery Exports	375.8	324	229	258	315	243
Total Exports	**57,663.5**	**70,443**	**57,210**	**50,691**	**44,089**	**38,410**

AsankaWelagedara
Chairman & Chief Executive Officer
National Gem and Jewellery Authority *2017-02-27*

NATIONAL GEM AND JEWELLERY AUTHORITY

25 Galle Face Terrace,Colombo 3.

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2016

	Note	2016 Rs. Cts.	2015 Rs. Cts.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	**3**	**296,612,582.04**	304,125,489
Leasehold Land (Right-To-Use Land)	**4**	**23,634.70**	25,998
Intangible Assets	**5**	**88,350.32**	173,300
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		**15,236,226.63**	1,728,008
Other Financial Assets	**14**	**20,000,000.00**	20,000,000
Total Non-Current Assets		**705,100,134.27**	**699,192,137**
Current Assets			
Inventories	**9**	**4,842,109.17**	4,752,892
Receivables	**10**	**46,149,307.55**	41,901,500
Held-to-Maturity Investment (HTM)	**11**	**543,761,496.79**	552,962,322
Deposits and Advances	**12**	**42,189,715.22**	41,743,012
Employee Loans & Advances	**13**	**13,230,475.94**	11,682,493
Other Financial Assets	**14**	**687,613,759.72**	779,742,163
Cash and Cash Equivalents	**15**	**31,426,464.56**	55,890,007
Total Current Assets		**1,369,213,328.95**	**1,488,674,388**
TOTAL ASSETS		**2,074,313,463.22**	**2,187,866,525**
EQUITY & LIABILITIES			
Equity			
Contributed Capital	**16**	**30,000,000.00**	30,000,000
Gem Mining Welfare Fund	**17**	**28,684,142.71**	26,748,972
Jewellery Development Fund	**18**	**56,075,262.67**	46,558,763
Gem Rewards Fund	**19**	**45,657,241.09**	38,150,635
Gems Revaluation Reserve	**20**	**355,074,648.00**	355,074,648
Revaluation Reserve	**21**	**52,945,424.11**	52,945,425
Retained Earnings		**699,402,926.43**	735,816,080
Total Equity		**1,267,839,645.01**	**1,285,294,522**
Non-Current Liabilities			
Retirement Benefits Obligation	**22**	**34,742,935.55**	39,083,127
Deferred Tax Liability	**6**	**28,620,113.00**	20,063,344
Liability to Make Lease Payments - Settlements Fall Due More Than One Year	**23.1**	**7,748.00**	9,208
Total Non-Current Liabilities		**63,370,796.55**	**59,155,679**
Current Liabilities			
Liability to Make Lease Payments - Settlements Fall Due Within One Year	**23.1**	**2,130.00**	1,809
Payables	**24**	**103,361,586.47**	158,371,143
Gemming Deposits		**395,764,276.64**	390,976,995
Deposits and Advances Received	**25**	**108,783,847.24**	103,940,536
Statutory Payable	**26**	**91,803,990.36**	157,208,059
Provisions and Accrued Expenses	**27**	**43,387,190.95**	32,917,783
Total Current Liabilities		**743,103,021.66**	**843,416,324**
TOTAL EQUITY & LIABILITIES		**2,074,313,463.22**	**2,187,866,525**

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 Chartered Accountants of Sri Lanka.

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DIRECTOR FINANCE

The Accounting policies on pages 13-24 and Notes on pages 28-43 form 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 23rd February 2017 and signed on their behalf.

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CHAIRMAN / CEO　　　　**DIRECTOR**

NATIONAL GEM AND JEWELLERY AUTHORITY

25, Galle Face Terrace,Colombo 3.

STATEMENT OF COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 Rs. Cts.	2015 Rs.
Revenue	**28**	516,766,249.44	580,394,663
Other Income	**29**	80,103,643.41	92,356,674
Administration Expenses	**30**	(208,400,996.50)	(147,716,987)
Personnel Expenses	**31**	(224,438,476.49)	(218,311,400)
Promotional Expenses	**32**	(78,110,483.00)	(92,358,312)
Operating Profit		**85,919,936.86**	**214,364,637**
Net Finance Income	**33**	**101,285,601.14**	107,620,077
Profit After Net Finance Income		**187,205,538.00**	**321,984,714**
Contribution to Consolidated Fund		**(175,000,000.00)**	**(75,000,000)**
Profit Before Tax		**12,205,538.00**	**246,984,714**
Income Tax Expenses	**34**	(56,144,925.50)	(130,925,283)
Profit for the Year		**(43,939,387.50)**	**116,059,431**
Profit for the Year		(43,939,387.50)	116,059,431
Other Comprehensive Income		-	-
Total Comprehensive Income for the Year		**(43,939,387.50)**	**116,059,431**

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:

	Rate	
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.

f). Rental Income

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

g). Interest Income

Interest income is recognized using the cost method.

h). Dividend Income

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

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

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

1.14 Expenses

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

1.15 Events after the Reporting Period

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

1.16 Commitments

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

1.17 Significant Accounting Estimates and Judgments

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

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

(a) Recognition of Deferred Tax Assets

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

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

(a) Useful life time of depreciable assets

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

(b) Defined benefit plan

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

NATIONAL GEM AND JEWELLERY AUTHORITY

No, 25, Galle Face Terrace , Colombo 03.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2016

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 2015	**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	2,116,724	-	-	-	-	10,553,769
Adjustment on Impairment								-	-
Balance as at 31 December 2015	**30,000,000**	**26,748,973**	**46,558,763**	**38,150,634**	**-**	**355,074,648**	**52,945,425**	**735,816,080**	**1,285,294,523**
Fair Value Adjustment	-	-	-	-	-	-	-	-	-
Profit for the Year	-	-	-	-	-	-	-	(43,939,388)	(43,939,388)
Other Comprehensive Income	-	-	-	-	-	-	-	-	-
Total Comprehensive Income									**(43,939,388)**
Prior Year Adjustment								7,526,234	7,526,234
Contribution to / (Utilization) for the Year	-	1,935,170	9,516,500	7,506,607	-	-	-	-	18,958,276
Adjustment on Impairment	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	**30,000,000**	**28,684,143**	**56,075,263**	**45,657,241**	**-**	**355,074,648**	**52,945,425**	**699,402,926**	**1,267,839,646**

NATIONAL GEM AND JEWELLERY AUTHORITY

No,25, Galle Face Terrace , Colombo 03.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016 Rs. Cts.	2015 Rs. Cts.
Profit Before Tax	**187,205,538**	**321,984,714**
Adjustments for		
Deprecation	29,005,476	29,476,142
Amotisation of Intangible Assets	84,950	122,866
Provision for Retirement Benefit Obligations	2,321,531	8,389,972
Dividends	(180,000)	(180,000)
Profit on Disposals of Fixed Assets	(316,720)	44,850
Interest Income	(101,310,787)	(107,645,069)
Finance cost on Liability to Make Lease Payments	25,186	24,992
Amortization of Right-to-use Land	2,364	2,364
Operating Profit Before Working Capital Changes	**116,837,538**	**252,220,831**
Changes in working Capital		
Inventories	(89,217)	(611,083)
Receivables	(4,247,808)	(12,996,352)
Deposits and Advances	(446,703)	2,401,860
Prepaid Expenses	-	-
Employee Loans & Advances	(1,547,983)	2,425,510
Payables	(55,009,556)	54,429,197
Gemming Deposits	4,787,282	21,064,566
Deposits and Advances Received	4,843,312	(2,358,812)
Provisions and Accrued Expenses	10,469,408	(15,499,687)
Cash Generated from Operations	**75,596,272**	**301,076,030**

Gratuity Paid		(6,661,722)	(382,002)
Taxes Paid		(109,553,229)	(133,574,741)
Net Cash from Operating Activities		**(40,618,679)**	**167,119,287**
Cash Flows from Investing Activities			
Acquisition of Property, Plant and Equipment		(21,492,799)	(103,247,343)
Proceeds from Disposal of Fixed Assets		316,950	36,700
Dividend Received		180,000	180,000
Net Investment in Other Financial Assets		(59,430,877)	(34,761,405)
Net Investment in Treasury Bills		(23,660,877)	(135,157,740)
Interest Received		101,310,787	107,645,069
Net Cash from (used in) investing activities		**(2,776,816)**	**(165,304,719)**
Cash Flows from Financing Activities			
Utilization of Gem Mining Welfare Fund		1,935,171	(616,955)
Settlement of Liability to Make Lease Payments		(26,325)	(26,325)
Contribution to Jewellery Development Fund		9,516,500	9,054,000
Contribution to Gem Rewards Fund		7,506,606	2,116,724
Net Cash From (used in) Financing Activities		**18,931,952**	**10,527,444**
Net Changes in Cash & Cash Equivalents		**(24,463,543)**	**12,342,012**
Cash & cash Equivalents at Beginning of the year		**55,890,007**	**43,547,995**
Cash & Cash Equivalents at End of the Year	**(Note 15)**	**31,426,465**	**55,890,007**

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.

3	**Property, Plant & Equipment Cost**	**As At 1 January 2016**	**Additions**	**(Disposals)**	**Adjustments**	**As At 31 December 2016.**
	Freehold					
	Land	37,941,670	2,432,389	-	-	40,374,059
	Buildings	158,201,477	5,443,333	-	-	163,644,810
	Fixture & Fittings	14,491,585	1,681,167	-	-	16,172,753
	Furniture	13,014,613	1,047,470	-	-	14,062,083
	Office Equipment	18,577,237	2,219,920	(297,669)	-	20,499,488
	Computer	26,110,915	2,812,829	(1,400,219)	-	27,523,525
	Laboratory Equipment	24,069,197	420,792	-	-	24,489,989
	Lapidary Equipment	403,475	-	-	-	403,475
	Jewellery Equipment	148,200	-	-	-	148,200
	Assay Equipment	123,191,248	4,502,399	-	-	127,693,648
	Machine and Geuda Equipment	8,292,358	932,500	-	-	9,224,858
	Motor Vehicle	108,582,088		-	-	108,582,088
	Motor Bicycles	100,000	-	-	-	100,000
	Bicycles	37,334	-	-	-	37,334
	Library Books	5,700	-	-	-	5,700
	Leasehold	-	-	-	-	-
	Land	159,205	-	-	-	159,205
		533,326,303	**21,492,799**	**(1,697,888)**	**-**	**553,121,215**

	As At 01 January 2016	**Charge for the Year**	**(Disposals)**	**Adjustments**	**As At 31 December 2016**
Depreciation					
Freehold					
Buildings	44,941,153	1,595,325	-	-	46,536,479
Fixture & Fittings	12,093,183	2,966,651	-	-	15,059,834
Furniture	9,557,486	767,174	-	-	10,324,660
Office Equipment	10,455,070	1,458,701	(297,439)	-	11,616,333
Computer	18,248,614	2,606,305	(1,400,219)	-	19,454,701
Laboratory Equipment	13,751,650	1,762,979	-	-	15,514,629
Lapidary Equipment	344,115	32,200	-	-	376,315
Jewellery Equipment	148,200	-	-	-	148,200
Assay Equipment	18,742,888	8,583,075	-	-	27,325,963
Machine and Geuda Equiment	8,292,358	70,768	-	-	8,363,126
Motor Vehicle	87,602,020	9,161,360	-	-	96,763,380
Motor Bicycles	100,000	-	-	-	100,000
Bicycles	35,451	1,872	-	-	37,323
Library Books	936.00	(936)	-	-	-
	224,313,124	**29,005,476**	**(1,697,568)**	**-**	**251,620,943**

Net Carrying Values	As At 31 December 2016	As At 31 December 2015	As At 01 January 2015
Freehold			
Land	40,374,059	37,941,670	37,941,670
Buildings	117,108,331	113,260,324	119,765,993
Fixture & Fittings	1,112,919	2,398,403	2,533,882
Furniture	3,737,423	3,457,128	3,634,190
Office Equipment	8,883,156	8,122,167	8,786,874
Computer	8,068,824	7,862,300	9,134,664
Laboratory Equipment	8,975,359	10,317,547	11,745,917
Lapidary Equipment	27,160	59,360	91,560
Jewellery Equipment	-	-	-
Assay Equipment	100,367,685	104,448,361	11,802,615
Machine and Geuda Equiment	861,732	-	-
Motor Vehicle	11,818,708	20,980,068	36,09,806
Motor Bicycles	-	-	-
Bicycles	11	1,883	1,882
Library Books	5,700	4,764	5,700
Leasehold			-
Land	159,205	159,205	159,205
	301,500,272	**309,013,179**	**241,700,958**
Provision for Impairment	(4,887,690)	(4,887,690)	(4,887,690)
	296,612,582	**304,125,489**	**236,813,268**

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.

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	**2016**	**2015**
Capitalized Amount		
As At 01 January	**70,909.00**	**70,909.00**
Initial Cost Incurred	-	-
Capitalized During the Year	-	
As At 31 December	**70,909.00**	**70,909 .00**
Amortization		
As At 01 January	**44,910.60**	**42,546 .00**
Amortization for the Year	2,364.00	2,364 .00
As At 31 December	**47,274.60**	**44,911 .00**
Carrying Amount	**23,634.40**	**25,998 .00**

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. 2016**	**Additions / (Disposals)**	**As At 31 Dec. 2015**
5.1 At Cost			
Computer Software	2,677,306.00		2,677,306
Total	**2,677,306.00**	**-**	**2,677,306**

	As At 31 Dec. 2016	Charge for the Year	As At 31 Dec. 2015
5.2 Amortization			
Computer Software	2,588,956.00	84,950	2,504,006
Total	**2,588,956.00**	**84,950**	**2,504,006**

5.3 Net Carrying Values	**As At 31 Dec. 2016**	**As At 31 Dec. 2015**
Computer Software	**88,350.00**	**173,300**

6 Deferred Tax Asset / (Liability)	**2016**	**2015**
Balance at 01 January	**(20,063,344.00)**	**(16,923,372)**
Adjustment	(8,556,769.00)	(3,139,972.00)
Balance at 31 December	**(28,620,113.00)**	**(20,063,344)**

7 Other Assets		
Rough Stone & Synthetic Stone	96,682.58	96,682.58
Exhibition Gem Stone	371,842,648.00	371,842,648.00
Advance Payment Gems and Gems Institute	200,000.00	200,000.00
	372,139,330.58	**372,139,331**
Provision for Impairment	(200,000.00)	(200,000)
	371,939,330.58	**371,939,331**

8 Available for sale (AFS) Financial Assets

Unlisted Investments	**(Note 8.1)**	**1,200,010**	**1,200,010**

8.1 Unlisted Investments	***No. of Shares***		
The Associated Newspapers of Ceylon Limited	20,000	200,000.00	200,000.00
G.S.M.B.Technical Services (PVT) Ltd	100,000	1,000,000.00	1,000,000.00
LGL (Pvt) Ltd	1	10.00	10.00
		1,200,010.00	**1,200,010 .00**

9 Inventories

Consumables Stock	999,011.54	2,340,774.90
Gems - Gauda Centre	183,547.54	183,547.54
Printing and Stationery Stock	3,659,550.09	2,228,569.83
	4,842,109.17	**4,752,892**

10 **Receivables**

Receivables	44,184,201.48	41,065,511.47
Provision for Impairment	(1,407,972.00)	(1,407,972.00)
	42,776,229.48	**39,657,539.00**
	3,373,078.07	2,243,960.21
Others	**46,149,307.55**	**41,901,500.00**

11 **Receivables**

Held-to-Maturity Investment (HTM)

Carrying Amount at Amortized Cost

Treasury Bills	543,761,496.79	552,962,321.53

12 **Deposits and Advances**

General Deposit	39,799,932.76	37,024,684.46
Others	14,525.00	14,525.00
Rent Deposits	-	-
40% Land Auction	-	-
Security Deposits	59,500.00	34,500.00
Advance to Suppliers	3,749,704.46	6,103,249.78
	43,623,662.22	**43,176,959.24**
Provision for Impairment	(1,433,947.00)	(1,433,947.00)
	42,189,715.22	**41,743,012**

13 **Employee Loans & Advances**

Advances	168,969.98	66,961.28
No pay Leaves	134,864.19	142,030.27
Vehicle Loan	27,186.75	53,033.31
Textile Loan	136,000.24	224,000.24
Distress Loans	12,763,454.78	11,196,467.41
	13,230,475.94	**11,682,493**

14 **Other Financial Assets**

Fixed Deposits	670,106,733.38	764,439,445.50
State Institution Temporary Surplus Fund	17,507,026.34	15,302,717.03
	687,613,759.72	**779,742,163.00**

15 **Cash and Cash Equivalents**

Cash and Bank Balances - LKR	30,311,026.33	34,442,239.93
Bank Balances - Foreign Currency	1,112,438.23	562,167.35
Petty Cash	3,000.00	-
Investments in REPO	-	20,885,600.00
	31,426,464.56	**55,890,007**
	============	===========

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**	**2016**	**2015**
	Balance at 01 January	39,083,126.55	31,075,156.25
	Expense Recognized in the Statement of Comprehensive Income **note** 22.1	2,321,531.00	8,389,972.00
	Benefit Paid Year 2016	(6,661,722.00)	(382,002.00)
	Adjustments made year 2016	-	-
	Balance at 31 December	**34,742,935.55**	**39,083,127.00**
		============	============

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

	2016	2015
Interest Cost	4,596,176.00	3,042,258.00
Charge for the Year	1,633,564.00	1,891,744.00
(Gain) / Loss Arising From Changes in the Assumptions	(3,908,209.00)	3,455,970.00
	2,321,531.00	**8,389,972.00**
	============	============

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

	2016	2015
Discount rate [%]	12	10
Future Salary Increases Average - Salary [%]	1.3	1.3
Staff Turnover Factor [%]	1.5	2.2
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**	**2016**	**2015**
	Gross Liability	-	-
	As At 01 January	520,589.00	546,914.00
	Recognized During the Year	-	-
	Payments Made During the Year	(26,325.00)	(26,325.00)
	As At 31 December	**494,264.00**	**520,589.00**
	Finance Cost		
	As At 01 January	509,572.00	534,564.00
	Recognized During the Year	-	-
	Finance Cost Recognized in Comprehensive Income During the Year	(25,186.00)	(24,992.00)

Finance Cost Allocated to Future Periods	**484,386.00**	**509,572.00**
Net Liability As At 31 December	**(9,878.00)**	**(11,017.00)**
	============	============

23.1 Classification of Liabilities

Settlements Fall Due Within One Year		
Gross Liability	40,157.00	26,995.00
Finance Cost Allocated to Future Periods	(38,027.00)	(25,186.00)
	2,130.00	**1,809.00**
	============	============
Settlements Fall Due More Than One Year		
Settlements Fall Due Within Two to Five		
Gross Liability	157,950.00	157,950.00
Finance Cost Allocated to Future Periods	(153,943.00)	(153,262.00)
	4,007.00	**4,688.00**
Settlements Fall Due More Than Five Years	============	============
Gross Liability	296,156.00	335,643.00
Finance Cost Allocated to Future Periods	(292,415.00)	(331,123.00)
	3,741.00	**4,520.00**
Total Settlements Fall Due More Than One Year	**7,748.00**	**9,208.00**
Total Net Liability As At 31 December	**9,878.00**	**11,017.00**
	============	============

24 Payables

Creditors	99,728,762.98	155,565,953.92
Retention from Contractors	2,758,060.85	2,568,872.60
Other	874,762.64	236,316.39
	103,361,586.47	**158,371,142.91**
	=============	===========

25 Deposits and Advances Received

	2016	**2015**
Receipts in Advance	16,525,400.00	18,603,950.00
Employee Security Deposits	74,500.00	74,500.00
Advances from Customers	15,896.26	15,896.26

Over recoveries from Employees		6,132.00	2,066.00
Land Dispute Deposits		67,549,904.65	63,344,856.91
Tender Deposit		5,823,501.00	4,569,500.00
Shop Holder Deposit WTC		18,382,516.33	16,923,769.48
Gem Museum Fund		125,997.00	125,997.00
Export Commission Deposits		280,000.00	280,000.00
		108,783,847.24	**103,940,535.65**
		============	============

26 Statutory Payable

		2016	2015
Corporate Tax	(Note 26.1)	32,111,087.13	102,866,235.99
Value Added Tax		8,482,815.63	4,824,074.35
Withholding Tax		(11,743,760.65)	(11,743,760.65)
Retained Gem Auction Tax 2.5%		61,034,063.39	56,901,930.93
Nation Building Tax		774,246.77	1,858,935.16
Stamp Fees		1,417,917.61	2,618,983.99
		(272,379.52)	(118,341.04)
		91,803,990.36	**157,208,059**
		============	============

26.1 Corporate Tax

Balance as at 01 January		102,866,235.99	116,716,513.55
Current Tax for the Year		46,801,384.00	127,866,235.62
Payment During the Year			
Settlement of Previous Year Liability		(94,553,231.86)	(123,574,741.18)
	- Self Assessment Payments	(15,000,000.00)	(10,000,000.00)
Set off with Tax Credits	- ESC	(1,263,841.00)	-
	- WHT	-	-
	- Notional Tax	-	-
Adjustment on (Under) / Over Provision in Previous Year		(6,739.460.00)	(8,141,772.00)
Balance as at 31 December		**32,111,087.13**	**102,866,235.99**
		============	============

27 Provisions and Accrued Expenses

Accrued Expenses	43,387,190.95	32,917,783.11
	43,387,190.95	**32,917,783.11**
	============	============

28 Revenue

	2016	2015
Land Auction - Crown Land	41,101,459.59	9,107,087.50
Land Auction - LRC	49,296,572.28	229,489,656.17
Service and Appeal License Fees	547,862.95	607,556.00
Gemming License Fees	32,833,071.79	33,643,453.03
Dealers License Fees	44,434,146.77	35,728,410.40
Service Fees for Gifts and Samples	469,000.00	419,000.00
Gem and Jewellery Export Service Fee	117,910,550.94	113,956,667.16
Lapidary License Fees	298,959.32	349,980.00
Service fee - Geuda Export	6,508,683.82	6,708,634.66
LDO Land / Mineral Tax	3,987,400.00	3,472,067.90
Income from Fines	18,670,583.32	15,756,005.10
Gem Auction Permits	980,938.54	713,716.50
Gem Testing Charges	8,545,529.93	10,226,725.10
Income from Assay Office	5,037,578.83	3,435,765.59
License copying Charges	171,420.00	135,223.22
Service Fee - Katunayaka Diamond Center	6,415,948.22	5,359,927.27
Income from Gem Parcel Clearing	1,408,460.00	1,830,300.00
Foreign Currency Acceptance Permit	4,500.00	1,200.00
Environmental Protection	6,078,600.00	1,770,000.00
BACO Service Charges	10,681,099.20	16,179,677.89
Inspection Charges	30,773,580.55	38,768,272.48
Colour and 3D Cards	2,447,160.00	1,635,085.95
Sale of Gem	109,676,543.39	40,746,001.02
Forfeited Gemming	18,486,600.00	10,354,250.00
	516,766,249.44	**580,394,662.94**
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29 Other Income

	2016	2015
Miscellaneous Income	2,965,566.59	511,835.11
W.T.C and Rathnapura Booth	28,863,509.39	29,062,220.07

Sales of Books	20,850.00	10,230.00
Dividends	180,000.00	180,000.00
Rental Income	1,909,351.51	951,110.00
Proceed of Auctioned Items	1,502,950.00	1,838,150.00
Profit on Disposals of Fixed Assets	316,720.00	(44,849.79)
Income from Insurance Agencies	275,232.41	393,743.83
Sale of Jewelery	1,600,388.50	1,024,196.05
Exhibition expences – Foreign (recovered)	42,469,075.01	58,430,038.53
	80,103,643.41	**92,356,673.80**
	============	============

30	Administration Expenses	2016	2015
	Subscription	787,262.52	720,444.57
	Entertainment (Local)	1,124,996.87	587,648.60
	Telephone Charges	5,984,745.01	7,177,338.74
	Postage and Stamps	1,102,320.79	1,037,203.04
	Internet Charges	182,110.61	43,852.75
	Telex and Fax Charges	81,919.64	163,084.86
	Expenses of Board Members	1,365,000.00	831,000.00
	Rent	8,963,741.15	5,306,658.14
	Electricity	10,944,498.50	7,919,755.91
	Rates and Taxes	773,193.10	857,273.40
	Newspapers and Periodicals	168,160.00	60,117.00
	Water tax and Charges	1,489,606.44	1,179,203.95
	Advertising	806,680.00	848,055.00
	Transport	867,157.76	456,671.20
	Insurance	1,681,203.81	2,584,190.56
	Legal Fees	1,979,371.19	481,860.73
	Audit Fees for the Year	500,000.00	600,000.00
	Survey Fees	821,532.64	821,670.00
	Management Consultation	525,156.00	52,000.00

Maintenance of Building	6,722,204.17	5,050,957.76
Maintenance of Equipments	1,779,965.03	1,838,528.95
Security Services	10,054,750.00	9,446,947.50
Seminars and Training (Local)	3,794,471.07	3,097,941.93
Raid Expenses	704,823.27	725,806.00
General Auction Expenses	6,571,774.73	3,837,976.57
Donation	369,195.00	2,790,000.00
Consumable Assets	94,259.87	58,980.00
Office Supplies	4,296,387.43	2,643,354.12
Amortization of Right-to-use Land	2,364.00	2,364.00
Printing and Stationery	1,442,923.59	1,289,736.51
Laboratory Supplies	670,915.76	553,285.43
Environmental Expenses	6,008,516.15	5,780,924.06
Depreciation	29,005,476.37	29,884,211.03
Amortization of Intangible Assets	84,950.00	122,866.00
Rent W.T.C	23,184,169.94	21,753,658.40
Electricity Paid W.T.C	2,370,195.40	1,756,047.44
Legal Fees W.T.C	(52,550.40)	-
Maintenance of Motor Vehicle	11,110,911.43	4.553,850.53
Oil and Fuel	7,405,272.40	6,280,943.24
Tyres and Tube	1,023,732.14	918,352.60
License and Insurance Motor Vehicle	1,558,993.47	2,314,362.84
Parking Charges	300.00	130.00
Vehicle Insurance Compensation	(271,933.13)	(170,934.92)
General Expenses	3,140,223.17	1,013,592.02
Project Expenses	37,386,500.27	8,960,050.54
Bank Charges	246,548.22	358,498.56
Unclaimed NBT	799,936.12	610,797.14
Gem Miners scholerships Expenses	2,415,790.00	516,000.00
Rehabiliation of Gem Land	6,331,275.00	-
	208,400,996.50	**147,716,986.70**

31	**Personnel Expenses**	**2105**	**2014**
	Salaries and Allowances	91,324,431.61	82,345,143.30
	Acting Allowances / Risk Allowances	60,776.00	74,618.47
	Non Subject to E.P.F Salaries & Allowances	37,354,847.94	38,904,948.47
	Employees Provident Fund	14,982,456.66	12,472,072.00
	Employees Trust Fund	2,998,122.75	3,069,547.02
	Overtime	3,586,760.89	3,982,488.78
	Payment for Working on Holidays	253,654.22	36,595.50
	Awards (Gold Medals)	-	209,200.00
	Leave Bonus	5,385,538.88	4,740,074.81
	Interest Payed on Staff Housing Loans	229,660.71	259,303.71
	Employee Incentives	33,462,043.46	32,593,369.94
	Gratuity	2,321,531.00	8,389,971.97
	Travelling (Local)	2,443,761.05	2,859,955.25
	Uniforms for Staff	777,396.46	736,415.42
	Staff Welfare	11,844,388.71	9,837,982.82
	Medical Fees	8,860,406.15	9,165,213.00
	Transport allowance	8,552,700.00	8,634,500.00
		224,438,476.49	**218,311,400.46**

32	**Promotional Expenses**	**2016**	**2015**
	Travelling - Overseas	2,243,455.00	2,622,003.44
	Exhibition Expenses- Local	8,153,254.19	6,714,258.48
	Exhibition Expenses- Foreign	58,501,657.50	76,733,818.31
	Publicity - Local	8,338,440.59	3,275,781.22
	Publicity - Foreign	772,375.72	945,203.89
	Others	101,300.00	2,067,246.85
		78,110,483.00	**92,358,312.19**

33 Net Finance Income

Interest Income

Interest on Fixed Deposits and Treasury Bills	100,871,099.08	107,155,891.31
Interest on Staff Loan	439,688.06	489,177.52
	101,310,787.14	**107,645,068.83**

Interest Expenses

Finance cost on Liability to Make Lease Payments	(25,186.00)	24,992.00
	(25,186.00)	**(24,992.00)**
	101,285,601.14	**107,620,076.83**

34 Income Tax Expenses

		2016	2015
Current Tax Expense	**(Note 34.1)**	46,801,384.00	127,866,235.62
Adjustment on (Under)/Over Provision in Previous Year		786,772.50	(80,923.30)
Deferred Tax Charge / (Reversal)	**(Note 6)**	8,556,769.00	3,139,971.12
		56,144,925.50	**130,925,283.44**

34.1 Reconciliation Between the Current Tax Expense and the Product of Accounting	**2016**	**2015**
Profit Accounting Profit Before Taxation	**187,205,538.00**	**321,984,714.00**
Aggregated Disallowable Items	37,106,809.00	41,953,526.00
Aggregated Allowable Items	(66,401,376.00)	(61,552,099.00)
Income from Other Sources	(140,099,856.00)	(145,838,399.00)
Profit / (Loss) from Trade or Business	**17,811,115.00**	**156,547,742.00**
Other Income Liable for Tax - Interest Income	139,919,856.00	145,658,399.00
Total Statutory Income	**157,730,971.00**	**302,206,141.00**
Qualifying Payment	(157,730,971.00)	(75,000,000.00)
Tax Losses Utilized	-	(1,634,439.00)

Assessable Income / Taxable Income	**-**	**225,571,702.00**
Tax Charged at Statutory Tax Rate of 28%	-	63,160,077.00
Tax on Gross Dividend	46,801,384.00	64,706,159.00
Current Tax on Ordinary Activities for the Year	**46,801,384.00**	**127,866,236.00**

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

Hadduwa watta Land Tender which was held at the end of 2016 not materialized.

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 include 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.	2016	2015
Remuneration and Other Short-Term Employee Benefits	1,200,000	1,200,000
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	50,000,000.00	
	Withdrawal of Fixed Deposits and Treasury Bills	(110,000,000.00)	1,213,868,230.00
	Investment in (REPO)	-	-
	Withdrawal of REPO	20,000.00	-
Other Government Related Entities	Investment in Shares		

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

My No.	IEN/D/NGJA/1/16	Your No.	Date: 28 July 2017

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 2016 in term of Section 14(2)(c) of the Finance Act,No.39 of 1971

The audit of financial statements of the National Gem and Jewellery Authority for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 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 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.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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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 2016 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 (SLAS)

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 01

(i) According to Section 32 of the Standard, the income and the expenditure should not be set off against each other unless otherwise required or permitted by the Sri Lanka Accounting Standards. Nevertheless, the employees' incentives amounting to Rs.3,618,510 and the third party payments amounting to Rs.74,611,635 out of the total income of the Gem Extraction Projects amounting to Rs.173,293,834 had been set off against the income and the net income of Rs.95,063,689 only had been shown in the financial statements.

(ii) The full amount of the prepayment of building rent of the Galle Centre for 3 years amounting to Rs.916,667 had been shown as current assets contrary to Section 66.

(b) Sri Lanka Accounting Standard 08

Prior year adjustments amounting to Rs.7,526,234 had not been disclosed in the financial statements in accordance with Section 49 of the Standard.

(c) Sri Lanka Accounting Standard 16

In view of the failure to review annually the effective life of non-current assets 14 fully depreciated motor vehicles costing Rs.36,310,655 had been in further use. The estimated error resulting therefrom had not been revised in terms of the Sri Lanka Accounting Standard 08.

(d) **Sri Lanka Accounting Standard 17**

Instead of accounting for the fair value of 3 Motor Vehicles purchased under the lease purchase scheme in accordance with the Standard, the lease purchase installments of Rs.2,228,028 paid in that connection only had been brought to account.

(e) **Sri Lanka Accounting Standard 19**

The Actuarial gain resulting from the post-employment benefits amounting to Rs.3,908,209 which should be brought to account under the other comprehensive income in the statement of comprehensive income in accordance with Section 57 of the Standard had been shown as a deduction from the expenditure on gratuity for the year under review.

:.2.2 Accounting Policies

The following observations are made.

(a) According to the depreciation policy of the Authority, the buildings should be depreciated at 2 per cent whilst the partitions should be depreciated at 33 1/3 per cent. Nevertheless, the building and partitions had been considered as one item and depreciated at 2 per cent.

(b) According to the accounting policy adopted by the Authority for the adjustment of impairment losses, the carry forward value of property, plant and equipment and the intangible assets of every period of accounting should be reviewed and adjustments should be made. Nevertheless, it had not been so done and similar sum of Rs.6,531,637 had been adjusted to the accounts from the year 2013 as the impairment loss of the relevant assets.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Even though the cost of the work completed in respect of the repair work of the Naula Regional Office amounted to Rs.4,774,641, that had been shown as Rs.10,915,256 in the Work-in-progress Account, thus making an overstatement of Rs.6,140,615.

(b) The value of 02 motor vehicles purchased over several years ago on the lease purchase basis and in use at present had not been shown in the statement of financial position.

(c) The interest income receivable on 2 fixed deposit had been overstated by a sum of Rs.100,816.

2.2.4 Unexplained Differences

Comparison of the value of balances of 2 items of account with the primary records revealed a difference of Rs.4,252,776..

2.2.5 Transactions not supported by adequately Authority

The following observations are made.

(a) The following matters were observed in the examination of the Seethawaka River Gem Extraction Project.

(i) Even though the Act had not vested in the Authority the powers for carrying out direct extraction of Gems, the gem extraction activities of the Seethawaka River had been done by the Authority. Even though it was stated that the work was done on a formal approved, such approved had not been produced to Audit.

(ii) Even though a sum of Rs.160,845 had been spent on the publication of a newspaper advertisement calling for applications for carrying out the project through external entrepreneurs, that expenditure had become a loss to the Authority as it had implemented the project by itself.

(iii) Action had not been taken for obtaining the approvals and recommendations of the Road Development Authority, the Central Environmental Authority and the Department of Irrigation for the extraction of gems.

(iv) A sum of Rs.949,000 at the rate of Rs.1,000 per day had been paid up to August 2016 to external parties for project supervision without approval and outside the project estimates.

(b) A sum of Rs.1,600,000 at the rate of Rs.6,000 per employee had been paid through the Welfare Association during the year under review as new year allowance on the approval of the Chairmen.

3 Accounts Receivable and Payable

The following observations are made.

(a) The balances receivable included the value of dishonoured cheques older than 3 years amounting to Rs.205,216.

(b) Action had not been taken for the identification and settlement of the Withholding Tax amounting to Rs.11,743,761 shown in the financial statement from the year 2014.

2.4 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)	National Gem and Jewellery Authority Act, No.50 of 1993.		
	(i)	Section 14(1)(g)	The Gem extraction of the Seethawaka River had been transferred to external parties without the concurrence of the Cabinet of Ministers. The work of last 10 months of initial 2 stages of this project had been implemented without the Environmental Protection approval.
	(ii)	Section 18(1)	Even though it is stated that "such person has acquired such mining or gemming rights by way of an auction, the price paid at such auction by such person shall be deemed to include royalty in lieu of any gems that may be found on such land", the Authority had not determined such royalty percentages. Even though an income of Rs.127,812,509 had been earned from auctions in the year under review no royalty from that had been paid to the Treasury.
	(iii)	Section 20(2)	All moneys received by the Authority in the exercise, performance and discharge of the powers, duties and functions of the Authority should be credited to the Fund of the Authority.

Nevertheless, contrary to that, an income of Rs.52,655,943 relating to raids, field inspections and other income had been credited to the Reward Fund.

(b)	Section 11 of the Finance Act, No.38 of 1971.	A sum of Rs.543,761,497 had been invested in Treasury Bills whilst a sum of Rs.670,106,733 had been invested the fixed deposits in the State Banks without obtaining the approval of the Minister of Finance.
(c)	Financial Regulation 756 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and the Public Finance Circular No.05/2016 of 31 March 2016.	The stock of Geuda amounting to Rs.185,548 according to the accounts of the year under review had not been physically verified.
(d)	Section 5.2.5 of the Public Enterprises Circular No.PED/12 of 02 June 2003.	The copies of the Budget for year 2016 had not been forwarded to the relevant Ministry, the Department of Public Enterprises and the Auditor General.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Authority for the year under review had been a deficit of Rs.43,939,387 as against the surplus of Rs.116,059,431 in the financial result of the preceding year, thus indicating a deterioration of Rs.159,998,818 in the financial result for the year under review. Even though the income from the sale of gems in the year under review had increased by a sum of Rs.68,930,542 the decrease of income from the auction of lands by a sum of

Rs.148,198,712, the receipts of the foreign exhibitions by a sum of Rs.15,960,964 and the recoveries for inspections by a sum of Rs.7,994,692 and the increase of project expenditure and the expenditure on the maintenance of motor vehicles by sums of Rs.28,426,450 and Rs.6,557,331 respectively and the increase of Rs.100 million in the payment made to the Treasury had been in main reasons for the above deterioration for the year under review.

An analysis of the financial results of the Authority for the year under review and the three preceding years indicated financial surpluses from the year 2013 whilst there was a deficit in the year under review. In consideration of the employees' remuneration, the Government taxes and the depreciation on the non-current assets, the contribution of the Authority from the year 2013 to the year 2016 amounted to Rs.273,309,778, Rs.512,421,306, Rs.492,320,370 and Rs.263,205,729 respectively. Thus, as compared with the preceding year, the contribution of the year under review had decreased by 46 per cent.

3.2 Legal Actions instituted against the Authority

External parties had filed 22 cases against the Authority by the end of the year under review.

4. Operating Review

4.1 Performance

The major objectives of the Authority according to the National Gem and Jewellery Authority Act, No.50 of 1993 are given below in summarized form.

(i) Promotion and development of the Gem Industry and the Jewellery Industry and the implementation of schemes for that purpose,

(ii) Provide industrial training, specially the heat treatment and gem cutting training, promotion and patronage to the employees in every section of the above industries,

(iii) Taking steps necessary for creating confidence in the future by buyers in the industry and the prevention of illegal gem mining and removal of gems out of Sri Lanka,

(iv) To act as the sole authority for the alienation of the right for the excavation of gem mines in lands belonging to the Government and providing industrial and other advice and assistance required for the sale of gems and jewellery,

(v) Establishment of offices for the administration of the functions of any scheduled law relating to the gem industry and certifying of gem and examination of precious metals and ensure the stamping of a special mark on the jewellery manufactured in Sri Lanka.

(vi) Provide co-operation necessary to such industries and the Government Departments for the development and co-ordination of the above industries, and

(vii) Regularisation and control of the security steps necessary for the safeguard of the employees engaged in the above industries.

The following observations are made in connection with the execution of the above objectives.

(a) Out of the objectives of the Act described above, No.(ii), (iii) and (vi) had not been included in the Corporate Plan.

(b) Even though the participation of the exporters in the foreign exhibitions should be ensured in order to expand the gem and jewellery market outside Sri Lanka, an adequate course of action had not been introduced to create an awareness and encoragement of the Exporters. Even though export exhibition expenditure amounting Rs.58.5 million had been incurred during the year under review, it was not possible to establish the effectiveness of that expenditure due to the lack of a follow up arrangement set in place to examine whether the export income has increased through the participation of the exporters in the foreign exhibitions.

(c) The activities such as providing facilities for the importers of gold, the supply of facilities and promotion to the Sri Lanka Gem and Jewellery Exchange, the operation and Management of the Ratnadeepa Trade Stall and the publication of trade advertisements in international magazines had not been included in the Action Plan.

(d) The expected targets of 08 activities had not been achieved and the physical performance of those ranged from 20 per cent to 87 per cent whilst the financial progress ranged from 2 per cent to 82 per cent.

(e) Even though physical performance targets of 7 activities of the Authority had not been achieved, the financial progress ranged from 124 per cent to 305 per cent.

(f) Even though the physical performance of 2 activities of the Authority had exceeded the targets, the financial performance had been at the low levels of 40 per cent and 51 per cent.

(g) In the achievement of the physical performance targets of 3 activities the financial performance of 2 activities had been at the anomalous level of 50 per cent whilst it had been 22 per cent in one activity. Further, the financial and physical performance in the income earnings of 2 activities had exceeded the targets to a large extent.

(h) Large scale environmental damage caused by mechanical gem mining was observed. In view of the weak level of the rehabilitation work of those mines that had caused an adverse impact to the environment as well as the health of the people. Further, the gem mines associated with paddy lands had resulted in the risk of not being able to use such lands for cultivation purposes. Even though the risk of landslides resulting from the tunneled mines in the Ratnapura District was observed, an adequate attention for that had not been paid.

4.2 Management Activities

The following observations are made.

(a) Even though periods of 3 to 6 years had elapsed after dishonoring of 7 cheques received valued at Rs.210,216 action had not been taken for the recovery of the money.

(b) Even though a capital contribution of Rs.92,948,578 had been made in the year 2009 by the Gem Exporters and the Authority for the incorporation of a Private Company for the establishment of a Gem Laboratory, any activity, other than the registration of the Company had been done even by 31 May 2017, the date of audit. Action had also not been taken in accordance with the decision of the Cabinet of Ministers dated 16 August 2016 for the recovery of the money.

(c) According to Sections 18(2) and 18(4) of the National Gem and Jewellery Act, the gems received from the Gem Mining Projects should be obtained by the Authority and out of the proceeds of sale of those gems, a portion should be set apart for royalty. Nevertheless, no money whatsoever, from the sum of Rs.184,551,611 earned from all the projects of Bagawanthalawa and Seethawaka River had been remitted to the Treasury as royalty.

(d) An overpayment of income tax of Rs.43,750,000 had been made due to the failure to take into consideration the sum of Rs.175 million paid to the Consolidated Fund in the computation of the income tax.

(e) Certain recommendations made by the Internal Auditor though the internal audits and investigations carried out by him had not been implemented.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) The following matters were observe during the course of the test checks carried out in relation to the Gem Mining Licences issued after auctioning of the Gem lands of the Chapelton Estate at Bogawanthalawa.

(b) Licenses for 51 fragments of land had been issued without the approval of the Chairman. Even though the licensee had excavated unauthorised mines breaching the conditions of the licences, the Gem Mining Licences had been extended for one year with effect from 20 May 2016 without taking any action on such activities.

(c) Despite the expiry of the environmental approval granted by the Central Environmental Authority for Gem Mining in the Kehelgamu Oya on 21 July 2016, the Authority had granted the premission again to the licensees of 5 fragments of land for the removal of layers of sand within the land reservation.

(d) In the case of all who had breached the conditions of the licences and committed the same offence had not been acted upon in the uniform and equal basis and recovered the fines and losses. The losses recovered had not been utilized for restoring the environment to the normal condition.

(e) The following observations are made in connection with the payment of a sum of Rs.33,488,255 as incentives to the employees of the Authority.

(i) An Incentive Scheme based on performance according to the instructions issued by the Treasury in the years 2001 had not been formulated.

(ii) Even though the Board of Directors had ordered that the incentives for the year should be paid after the obtaining the approval of the Treasury, contrary to that, a sum of Rs.33,488,255 had been paid without obtaining such approval.

(iii) Accounting to the Incentive Methodology approved by the Treasury in the year 2001, the maximum that can be paid to an employee under the General Reserves amounted to Rs.10,000. But, the payment made at the rate of Rs.58,000 had resulted in an overpayment of Rs.11,952,000 whilst an over payment of Rs.5,202,819 had been made due to the payment made on the gross salary instead of the basic salary.

(iv) No performance criteria whatsoever had been based for payment of the incentives and only the saving of the entitled leave had been taken into consideration. According to the Incentive Scheme that prevailed, the incentive should be proportionately deducted for the leave availed of exceeding 21 days during the year. The incentives for the year under review had been paid in December of that year itself and as such the total leave in respect of the year had not been taken into consideration.

(v) Even though the incentives should be based on the audited financial statements for the year, it had been based only the estimated financial statements. In view of this position, incentives had been paid despite incurring an after tax loss of Rs.43,939,387.

(vi) Even though incentives of Rs.3,618,510 out of the net income of the Gem Mining Projects had already been paid to all employees during the year under review, the project income had been taken into consideration in the annual incentive payment as well. As such, that amount had been duplicated in the payment of incentives.

4.4 Dormant Bank Accounts

One Bank Current Account of the Authority had been dormant from September 2015 and the balance in the account amounted for Rs.325,676.

4.5 Staff Administration

The following observations are made.

(a) The approved staff of the Authority had been 282 and the actual staff had been 274. The actual staff included 15 casual employees and one employee on contract basis not included in the approved staff.

(b) The approved number of minor employees had been 61 whilst 5 employees exceeding the approved number had been recruited to the permanent staff.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of this Public Enterprises Circular No.PED/12 of 02 June 2003 the accounts together with the draft Annual Report should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the draft Annual Report for the year 2016 had not been furnished even by 31 May 2017.

5.2 Corporate Plan

The Corporate Plan prepared including the year under review had not been updated in terms of Section 5.1.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

5.3 Action Plan

A formal course of action had not been formulated for the examination of the progress of the achievement of the targets included in the Action Plan prepared for the year under review.

5.4 Internal Audit

The following observations are made.

(a) Even though the Internal Audit Division should examine the reliability of the accounting records, schedules and entries, such examination had not been included in the Internal Audit Plan and subjected to internal audit.

(b) Contrary to the Financial Regulation 134 (1) and Internal Auditing Standards No.1120 referred to in the Circular No.DMA/2009(3) dated 07 October 2009 of the Department of Management Audit as well as the auditing ethics, and in a manner damaging the independence, the Internal Auditor had participated in the auctions of the Authority and in the activities of the Raids Division and obtained the allowances in that connection. Further, it was observed that the examination of certain duties in which the Internal Auditor had participated had neither been included in the Internal Audit Plan nor subjected to an internal audit.

(c) Despite the attachment of two additional officers to the Internal Audit Division, 35 activities included in the Internal Audit Programme for the year under review had not been executed.

5.5 Contract and Procurement Procedure

A Joint Gem Mining Project had been implemented in order to prevent the unauthorised gem mining around Keland River Hadduwa Watta. Newspaper advertisements had been published inviting quotations for Co-opting a private entrepreneur for that purpose. The following observations are made in that connection

(i) The lowest bid determined for the project had been Rs.40,000,000. Even though the Bid Guarantee for that in terms of the Guidelines 5.3.13 (ii) of the Procurement Guidelines amounted to Rs.200,000 or Rs.400,000, a Bid Guarantee of Rs.1,000,000 had been obtained.

(ii) The contractor selected without carrying out the financial feasibility and the experience in the Gem Sector as specified in the Guideline 7.10.1 of the Procurement Guidelines, had not implemented the project and the Authority had to bear an additional cost to protect the land from the unauthorized gem miners.

5.6 Budgetary Control

Variances ranging from 11 per cent to 80 per cent in the budgeted and the actual income and from 11 per cent to 7371 per cent between the budgeted and the actual expenditure were observed and as such it was observed that the budget had not been made use of as an effective instrument of management control.

5.7 Unresolved Audit Paragraphs

An officer over the age of 60 years had been deployed in service with effect from October 2012 as a Consultant on contract basis contrary to Section 9.1 of Chapter II of the Establishments Code without the approval of the Cabinet of Ministers, only on the approval of the Board of Directors.

6. Systems and Controls

Deficiencies the 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 systems and control.

Area of Systems and Control	Observations
(a) Accounting	Failure to bank the money collected without delays and the failure to maintain books.
(b) Operating Control	(i) Failure to take formal courses of action to maintain information on raids, reporting and on the confiscated articles.
	(ii) Failure to formalise the provision for the issue of licenses.
	(iii) Failure to take action in terms of the Financial Regulation 169 (2).
	(iv) Resorting to the use of Receipt Books due to the frequent breakdown of the Computer System and the failure to keep them in storage properly.
(c) Stock Control	(i) Existence of shortages and excesses between the balance of the stock ledger and the physical stock.

	(ii)	The purchases of goods and the auctions of obsolete articles of the Authority and the maintenance of the Stores Section are being under the charge of the Supplies Manager.
(d) Staff Administration	(i)	Failure to obtain confirmation of the Educational and Vocational qualifications of the employees.
	(ii)	Failure to subject the performance of the Non -Executive Level officers to an annual evaluation.
	(iii)	Failure to make recruitment to the vacancies.

H.M. Gamini Wijesinghe
Auditor General