

National Youth Services Council

1. Presentation of Consolidated Financial Statements

Even though the National Youth Council owns three subsidiary companies viz Youth Services Company Ltd, Youth Services (Music) Company Ltd. And Youth Services (Dancing) Company Ltd. the National Youth Services Council had not prepared consolidated financial Statements, incorporating the financial Statements of the subsidiaries.

2. Financial Statements

2:1 Opinion

In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the National Youth Services Council for the year ended 31 December 2010 presented for audit.

2:2 Comments on Financial Statements

2:2:1 Sri Lanka Accounting Standards (SLAS)

The following observations are made.

- (a) Comparative figures of the preceding year in respect of four significant data had not been shown along with the figures of the year under review in terms of SLAS No.03.
- (b) Even though the investments should be valued and the necessary adjustments should be made in the accounts for differences in terms of SLAS 22 and 26, the investments of Rs. 4,032,360 made in the 3 subsidiary companies of the Council had not been revalued since the year 1982 and shown at cost in the financial Statements.
- (c) Even though the depreciable value of assets purchased from the Government Capital Grants should be adjusted to the relevant capital grants account annually, in terms of SLAS 24, a sum of Rs. 1,164,685,059 received from the Government as Capital grants had not been brought to accounts accordingly and as such it was not ensured in audit whether Capital Grants had been actually utilized for the purchase of fixed assets.

2:2:2 Accounting Deficiencies

The following observations are made.

- (a) A stock of livestock with a life time of over 01 year valued at Rs. 608,000 retained in the farm without the intention of earning income from sales which should have been shown under fixed asset had been shown as a trading stock. As such, the profit of the working account of the farm for the year under review had been overstated by Rs. 608,000.
- (b) A difference of Rs.2,199,211 was observed between the total shown in the schedule submitted for 2 expenditure items under youth development and the total of these 2 items shown in the income and expenditure account.

2:2:3 Accounts Receivable

There were 144 loan balances totalling Rs.7,750,879 remained for more than 5 years and it included loan balances of Rs. 1,403,447 and a balance of Rs. 2,243,401 remained outstanding for more than 10 years and 15 years respectively.

2:2:4 Lack of Evidence for Audit

The following observations are made.

Seven items of account totalling Rs.43,820,015 could not be satisfactorily vouched or accepted in audit due to the non – availability of relevant evidence. Particulars are given below.

Item	Value	Evidence not made available
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	Rs.	
(a) Recurrent development grants received from 8 foreign institutions prior to the year 2007.	4,382,679	Agreement including relevant documents.
(b) Provincial Council recurrent receipts	553,823	Relevant files
(c) Decentralized Capital grants	93,153	Relevant documents

(d)	Foreign development Capital grants	1,787,683	Agreements and relevant documents
(e)	Purchase of Sports goods for Youth Societies	2,039,730	Distribution particulars
(f)	Debtors	20,842,770	} Confirmations of balances
(g)	Creditors	14,120,177	

2:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

(a) Acts of Parliament

Cash collected from the General Public should be deposited in the Treasury under a special fund and the expenditure should be incurred there from in terms of Sections 25 and 26 of the Finance Act, No.38 of 1971. Contrary to that, a sum of Rs.2,417,132 collected from the General Public for the construction of Murukkandi Temple Railway Station, had been deposited in a bank account of the council. The Treasury approval thereon had not been obtained as well.

(b) Procurement Guidelines

A sum of Rs. 2,943,251, without calling for quotations in 4 instances, an advance of Rs.495,000 without a security deposit, Rs.2,475,000 without a performance bond and a sum of Rs. 1,861,000 without a construction agreement had been paid contrary to Sections 2.14, 5.4.4, 5.4.10 and 8.9.1 respectively of the Procurement Guidelines.

(c) Circulars

(i) The Senior Assistant Secretary (Administration) of the Line Ministry had been appointed to act for the Director (Administration) post of the council. The monthly fuel allowance of Rs. 17,250 entitled for the acting post had been obtained in excess of the full allowance entitled to his substantive post, contrary to the paragraph 5 of the Public Administration Circular No. 13/2008 dated 26 June 2008.

(ii) In terms of Circular No. MPDI/MPRD/Veh dated 11 September 2002 of the Secretary to the Ministry of Policy Planning and Implementation, a vehicle had been obtained on hire basis without following the procurement procedure and even without an agreement from a private party, instead of obtaining

vehicles on hire basis from a registered institution. The hire charges of Rs. 476,798 had been paid during the year 2010 only for ascertaining its service.

(d) Scheme of Recruitments

An officer who had no even basic qualification in terms of the scheme of recruitment of the council had been appointed to the post of Director (Development) on Secondment basis. The Chairman/Director General had informed on 31 May 2011 that this recruitment had been made by the Director General in compliance with powers vested in the Hon. Minister by Section 06 of the Youth Services Council Act, No. 69 of 1979.

3. Financial and Operating Review

3:1 Financial Review

3:1:1 Financial Results

The operations of the Council during the year under review had resulted in a deficit of Rs.100.68 million as compared with the deficit of Rs.73.40 million thus indicating a deterioration of Rs.27.28 million in the financial result for the year under review.

3:1:2 Analysis of Financial Results

The following observation is made.

Even though a favourable variance was shown due to decrease in Youth development expenditure by Rs. 70.11 million and increase in internal earnings by Rs. 21.31 million, the government contributions and contributions received from Ministries and other Government institutions for recurrent expenditure had decreased by Rs. 8.60 million and 54.96 million respectively and the gratuity expenditure for the year had increased by Rs. 54.92 million had been the main reasons for the deterioration of the financial results.

3:1:3 Transactions of Contentious Nature

The following observations are made.

- (a) The music pool commenced in the year 2002 under the supervision of the Gampola District Office had become idle since 2004. The musical instruments given to that pool by the Sabha valued at Rs. 855.118 had not been returned to the Council again and they had been taken by a Youth Centre at Udugampola.
- (b) A sum of Rs.21,902 had been paid for foreign travels to the Executive Secretary of the Youth Thilina Authority who was working full time in that institution

which is an independent entity outside the scope of the National Youth Council, to participate in the 10th International Awards Association within the Scope of the Thilina Authority. A sum of Rs. 45,000 had also been paid from the fund of the council to a cameraman attached to the Line Ministry for training course conducted in India.

3.1.4 Improper Transactions

Even though 945 Carram Boards had been purchased for Rs. 1,370,250 for the distribution among the Youth Societies, a formal contract agreement had not been signed in terms of sub-paragraph 8.9.1(b) of the Procurement Guidelines. An assurance to ensure whether these items had been properly taken over by the Store Keeper and a register of the name of Societies to which those items were distributed were not made available for Audit.

3:2 Operating Review

3:2:1 Performance

The following observations are made.

(a) Four projects, the estimated value of which amounted to Rs. 44,578,150 included in the Action Plan under Youth Development Programme had not been implemented and three projects which were not included in the action plan had been carried out during the year under review and a sum of Rs. 33,797,606 had been spent thereon.

(b) Pioneering Youth Programme

Fourteen three – day workshops had been held in the year 2006 and again three - day indoor training had been given to the 3160 selected youths on 2008. Subsequently, an assignment had been given to them to co-ordinate 6 youths development programmes. Except a proposal for awarding certificates for the assessment, no other future action had been taken in respect of these youths. The total expenditure incurred on this programme amounted to Rs. 17,691,863 and a sum of Rs.2,788,678 stated as other expenses had not been explained to audit. This programme had not been followed up by the youth organizations and Development Division of the Council and the objective of generations wider rural contribution towards the national development process had not been achieved.

(c) According to the Youth Societies Article, one youth society should be established per each Grama Niladari Division. But the youth societies established only in

9307 Grama Niladari Divisions out of 14,013 Grama Niladari divisions spread out in 332 Divisional Secretarial Divisions. The Chairman informed that as the youth Society is a Voluntary Organisation, they could be established only on the presentation of them and the requirement of each area.

- (d) All the courses conducted at Heyyanthuduwa Training Centre had been stopped since 2002 and action had not been taken to re-opened it since the date of this report.

3:2:2 Non implementations of the orders of the Committee on Public Enterprises (COPE)

- (a) The youth service officer who was working in the Udadumbara Divisional Secretariat had purchased 16 cows on 25 February 2009 for Rs. 160,000 from the Farmers Training Centre at Kotmale operated under the Sri Lanka Hadabima Authority by producing fraudulent information using the letter heads of the office stating that it would be for the economic development of youth in the Udadumbara area. All these animals had been cut a care case and sold. Even though the COPE met on 03 November 2010 had ordered to take legal action against that officer concerned and the others involved therein and report within one month it had taken up to 31 January 2011 to interdict the relevant officer. Except that any disciplinary action whatsoever had not been taken against him even up to 28 March 2011.
- (b) The Committee on Public Enterprises met on 12 January 2007 had decided that the audited accounts of the Youth Services Ltd. Fully affiliated to the National Youth Council subjected to be examined by the Auditor General. But that Directive had not been carried out.

3:2:3 Management Inefficiencies

The following observations are made.

- (a) A sum of Rs. 2,076,734 receivable from the Youth Services Company Ltd. Up to 2004 for the utilization of resources of the Council including water and electricity had been written off from accounts in the year 2009 in terms of the decision No.22/2006 of the Council and instructions had been given to settle the sum of Rs. 1,288,431 receivable since 2005 by 20% instalments commencing from December 2009. Accordingly, only a sum of Rs. 761,569 had been recovered. However the recovery of this 20% had also been stopped by the decision No.18/2010 dated 06 September 2010 of the council. A further sum of Rs. 1,588,431 had to be recovered as at 30 June 2010 from the company.

(b) National Youth Awards Ceremony – 2009

The following observations are made.

- (i) A provision of Rs. 5,485,000 had been made for the National Youth Awards Ceremony in the year 2009 and the actual expenditure amounted to Rs. 8,336,403. Accordingly, a sum of Rs. 2,851,403 had been spent over the provision.
 - (ii) Even though the balance of the advance should be banked in the following day in terms of F.R. 177(1), an advance balance of Rs. 506,000 had been remained in hand for 15 days and banked after awarding the cash gifts.
 - (iii) It was decided to award certificates through District Offices to 38 first place winners of various tests for whom certificates had not been awarded at the award ceremony. Nevertheless, the Director General subsequently had decided not to award those certificates.
 - (iv) Even though 2000 copies of 2 publications which included the winners creations had been printed in March 2010, 961 copies therein valued at Rs. 182,873 had remained in the stores even by July 2010.
 - (v) Without considering the quotations called for in 4 instances by incurring an expenditure of Rs. 36,288 per each newspaper advertisement, an another quotation had been called for from the highest bidder within one day for the preparation of the marbal award, contrary to the Sub-sections 6.2.2 and 2.14.1 the procurement guidelines and awarded for a sum of Rs. 467,500.
 - (vi) Even though the procurement had been awarded for the creation of the stage back ground for Rs. 1,575,000, an agreement had not been entered into thereon in terms of sub-section 8.9.1 of the Procurement Guidelines,
- (c) According to the complain referred to the Criminal Investigation Department on 01 February 1990 in respect of a fraud done by 2 officers of the Council during the period 1989/90 by misusing fuel orders, the case No.9115/97 had been filed in the High Court of Colombo. According to the Court decision delivered on 24 October 2008 a fine of Rs. 580,000 had been paid to the Courts. Nevertheless, action had not been taken to recover the value of loss amounting Rs.1,147,688 by the Sabha even though 22 years had elapsed even up to the end of the year under review. The Attorney General had instructed to file a case in a Civil Court in this connection.

- (d) Even though the Secretary to the Youth Affairs and skills Development Ministry had instructed to the Chairman of the Youth Services Council by his letter dated 24 January 2011 stating that the audit of the Youth Services Company Ltd. should be carried out by the Internal Audit Division of the Youth Council, the internal audit function had not been commenced even by 28 March 2011.

3:2:4 Operating inefficiencies

The following observations are made.

(a) Foreign Travels – South African World Youth and Students Conference

A sum of Rs. 214,631 had been paid out of the Council's fund as air tickets and incidental expenses to 4 members of a voluntary organization which had no any connection with the Council.

Similarly, action had been taken by the Council to pay a sum of Rs.1,750,000 to a private organization for making payments to the relevant organizations as air tickets and registration fees. However, this money had been reimbursed from the Ministry of Foreign Affairs.

- (b) The payment had been suspended as the renovation of the Indoor Stadium of the training centre at Heyyanthuduwa had not been properly carried out and the period of completion had elapsed for more than 2 years by the end of the year 2010. However no any action whatsoever had been taken in this regard and a sum of Rs. 2,432,464 had been sill shown in the accounts as work in progress.

3:2:5 Uneconomic Transactions

The following observations are made.

- (a) A sum of Rs.4,032,360 had been invested in shares in the Youth Services Company Ltd., Youth Services (Music) Company Ltd. And Youth Services (Dancing) Company Ltd. during the period from 1985 to 1990. Any return on these investments had not been received up to the end of the year 2010 and the Youth Services (Music) Company Ltd. and the Youth Services (Dancing) Company Ltd. had existed only by names without any operation.
- (b) Even though a sum of Rs. 575,000 had been paid for the preparation of original plans during the year 2007 for the construction of youth universities in Panadura,

Maharagama and Anuradhapura, action had not been taken even to commence construction works up to the end of the year 2010.

- (c) Even though a sum of Rs. 100,000 had been paid to the Youth Thilina Authority in respect of the Swarna Thilina Awards Ceremony within the Scope of that Authority but not relevant to the Youth Council, the ceremony had not been held due to postponement of that ceremony after every arrangement had been ready.
- (d) A sum of Rs. 9,502,289 had been spent only for the publicity and advertisements of 4 youth programmes implemented during the year 2010 and it represented 23 per cent of the total expenditure of such programmes.

3:2:6 Underutilized Assets

The following observation is made.

A land for the construction of Beruwala Youth Centre had been taken on lease from the Urban Development Authority for a sum of Rs. 3,330,000 for a lease period of 50 years effective from 07 July 2000 and the total expenditure incurred thereon up to 31 December 2008 amounted to Rs. 3,374,330. Any development work had not been commenced even up to the end of the year under review, though 10 years had elapsed after being procured.

3.2.7 Losses Incurred in Operating Farms

The following observations are made.

- (a) Except the coconut cultivation in the Heyyanthuduwa farms, 8 acres in extent, there was no any other cultivation or animal husbandry. The net loss of the farm for the year 2010 amounted to Rs. 236,362 but it was incorrectly shown as a net profit of Rs.331,667 in the final accounts for the year under review.
- (b) A loss of Rs. 248,551 was shown for the year 2010 in the three farms operated by the Council.

3:2:8 Erroneous Payments

The following observations are made.

In comparing the amount stated as paid in respect of vegetable purchased during the year 2010 from one stall for the provision of foods to sportsmen/women of the Heyyanthuduwa National Volley Ball Training Pool, with the actual value confirm by

that stall, it was observed that a sum of Rs. 252,002 had been fraudulently obtained more than the actual value of goods.

3:2:9 Resources of the Sabha given to the other Government Institutions

The following observation is made

Twenty two officers of the council had been attached to another 5 Ministries and a sum of Rs. 3,644,994 had been paid to 12 officers who had been attached to the Line Ministry during the year 2010. Action had not been taken to reimburse this money from the Line Ministry.

3:2:10 Vehicle Utilization

The following observations are made.

- (a) Mile meters of 14 vehicles had not been in operative for more than 01 year but action in terms of F.R. 1653 had not been taken.
- (b) The ownership of 21 vehicles being used by the Council received during the period from 1985 to 1988 had been vested in other government institutions. Action had not been taken to transfer the ownership of those vehicles to the Council and the cost and the funding institutions for the purchase of these vehicles had also been uncertain.
- (c) The vehicle bearing No. 50-2592 registered in the name of the Ministry of Sports and Youth Affairs and belonged to the Ministry of Youth Affairs and Skills Development at present had been sold at Rs. 265,000 without the knowledge of that Ministry.

3:2:11 Corporate Plan

The following observation is made

The financial results of the preceding 3 years and the values of targets to be achieved in terms of Public Enterprises Circular No. PED 12 dated 12 June 2003 had not been shown in the corporate plan prepared for the period of 2010 to 2014. Thus the annual progress could not be evaluated financially.

3:2:12 Holding of Audit and Management Committee and the Implementation of its Decisions

The following decisions taken by the audit and Management Committee meetings had not been implemented.

- (a) The appointment of a Line Ministry representative to the audit and Management Committee since 2009.

- (b) Maintenance of a register of losses and damages properly.
- (c) Completion of distribution of Volley ball posts purchased under 4000 sports ground programme.
- (d) Taking action to acquire the 27 vehicles by the Council.
- (e) Obtaining the Treasury approval for the write off of accounts receivable carried forwarded since the number of years.
- (f) Submission of a full report on the lapsed contract advances of Rs. 833,202.
- (g) Presentation of project proposals for the Beruwala Land which has not been utilized for any development purpose.

3:2:13 Budgetary Control

The following observations are made.

- (a) An overall budget, incorporating all the sources such as the Treasury provisions, receipts from the Ministry and the Government institutions and the internal earnings had not been presented.
- (b) Even though the budget had been revised several times during the year under review by increasing the original estimates for the year 2010 by Rs.45.41 million the expenditure for the year had increased by Rs. 6.85 million than that of the revised value.
- (c) Accordingly it was observed that the original approved Budget had not been made use of as an effective instrument of management control.

4. Systems and Controls

Weaknesses observed during the course of audit were brought to the attention of the Chairman of the Council from time to time. Special attention is needed in respect of the following areas of control.

- (a) Agricultural activities
- (b) Accounts receivable
- (c) Recruitments and assignments
- (d) Fuel allowances
- (e) Vehicles
- (f) Conducting Youth Development Programmes
- (g) Procurement Guidelines
- (h) Foreign travels
- (i) Investments