Youth Services (Pvt) Ltd – 2015/2016

The audit of the financial statements of the Youth Services (Pvt) Ltd. for the year ended 31 March 2016, comprising the statement of financial position as at 31 March 2016, comprehensive income statement, 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 provision in Article 154 (1) of the Democratic Socialist Republic of Sri Lanka. My observations on the performance of the Company for the year under review which I consider should be tabled in Parliament by me in terms of Article 154 (6) of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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. Those Standards require that, I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of 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 Company'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 the financial statements.

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 Youth Services (Pvt) Ltd. as at 31 March 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

The following observations are made.

(a) Sri Lanka Accounting Standard - 01

(i) In terms of Paragraph 32 of the Standard, the Company should not offset assets against liabilities, but the long term Nisko Loan balance of Rs.150,000 had been offset against a loan balance receivable from the National Youth Services Council and shown in the financial statements.

(ii) In terms of Paragraph 138 of the Standard, action had not been taken to disclose, the information such as address of its registered office, nature of its operations and activities, the name of the parent company and the length of its Life.

(b) Sri Lanka Accounting Standard - 16

As the useful life of fixed assets had not been annually reviewed, 19 items of assets valued at Rs.6,879,936 which had been fully depreciated were being further utilized. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(c) Sri Lanka Accounting Standard – 19

The required disclosures in respect of employee benefits programs, implemented by the Company had not been made in terms of Paragraphs 139, 140 and 141 of the Standard.

(d) Sri Lanka Accounting Standard – 24

Related party transactions such as the loan balance of Rs.47,022,904 receivable from the National Youth Services Council and carrying out administration and business operations of the Company within the Council's premises and utilizing other resources without making any payment, had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The overdraft of Rs.1,951,513 in a bank account as at 31 March 2015 which had been shown as a debit in the financial statements relating to that year had been rectified in the year under review by a journal entry, by crediting a sum of Rs.3,903,026 to that bank account and debiting it to the current year's income statement. Accordingly, the profit for the year under review had been understated by a sum of Rs.3,903,026..

(b) Even though, a value of invoices totalling Rs.641,853,060 had been brought to account relating to the Security and Cleaning Services provided during the period of past 4 years by the Company, the relevant clients had agreed to pay actually a sum of Rs.616,616,929 and as such the value of debtors had been overstated by Rs.25,236,131.

(c) Due to over accounting of revenue from Security and Cleaning Services in the year under review by Rs.1,723,657 and accounting the revenue relating to the previous year amounting to Rs.1,026,041 as the current year's revenue, the revenue of the year under review had been overstated by Rs.2,749,698.

(d) Provision for gratuity for the employees of the Company had not been made.

2.2.3 Unexplained Differences

According to the information made available by the Company, the loan balance receivable from the National Youth Services Council as at 31 March 2016 amounted to Rs.45,148,216, whereas that balance according to the financial statements of the Council amounted to Rs.305,790, thus indicating an unidentified difference of Rs.44,842,426.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Receivable Value Added Tax (VAT) and payable Value Added Tax amounting to Rs.532,581 and Rs.2,172,555 respectively had been brought forward in the financial statements for more than 4 years. As the Company had not registered for VAT, the existence of such balances had been abnormal but any action had not been taken to settle them.

(b) Of the debtor balance totalling Rs.98,155,014, 36 per cent had belonged to the period of over 01 year and the value of debts remained for over 3 years amounted to Rs.8,400,908. Furthermore, action had not been taken to make provision for doubtful debts after being specifically identified irrecoverable debtor balances.

2.4 Lack of evidence for audit

The following observations are made.

(a) Even though, it was requested to produce personnel files of 16 officers, they were not made available for audit and as such it was unable to examine in audit whether they had fulfilled the necessary qualifications for their posts and whether they had been assigned sufficient duties.

(b) In order to ensure the correctness of income tax valued at Rs.1,134,335 disclosed in the financial statements, the relevant computations were not made available for audit.

2.5 Non-compliance with laws, rules, regulations and management decision's

The following non-compliance were observed.

	Reference to Laws, Rules and Regulations	Non-compliance
(a)	Section 66 of the Articles of Association of the Company	Even though a minimum of 100 shares should be purchased to become a Director of the Company, the present Directors of the Company had not purchased any shares.
(b)	Section 133 of the Companies Act No.07 of 2007.	An annual general meeting should be held once a calendar year, but General meetings had not been held relating to the year 2015. Furthermore, the date of general meeting held last time and the report had not been presented to audit and as such the information relating to the prior years was not revealed.
(c)	Payment of Gratuities Act No.12 of 1983.	The total number of staff of the Company as at 31 March 2016 amounted to 767 and a provision for gratuity had not been made annually for those employees. However, the total provision for gratuity to be made only for 41 permanent employees as at 31 March 2016 was Rs.13,794,177.
(d)	Employees Provident Fund Act No.15 of 1958.	
	(i) Sections 10(1) and 15	Contributions to the Employees Provident Fund and the Employees Trust Fund in respect of about 11 per cent of the employees who were in service during the period of 6 months from October 2015 to March 2016 had not been paid.

	(ii)	Sections 47 and 49	Even though it was stated that in computing contributions to the Employees Provident Fund and Employees Trust Fund, other earnings except interim allowance and special allowance should be considered, disregarding the employees basic salary by the Company contributions had been computed only on the minimum monthly wages determined by the Wages Board in respect of Security Services industry. Accordingly, a contribution of Rs.8,509,233 relating to the year under review had been under remitted.
(e)		Sub-section 2(a) of Chapter 1 of the Value Added Tax Act No.14 of 2002 and sub-section 2(c) of the Nation Buildings Tax Act No.09 of 2009.	It was not observed that the Company which Supplies Services had registered in accordance with provisions in the Value Added Tax Act and the Nation Buildings Tax Act for the payment of taxes or exception from such taxes had been granted.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Company for the year under review had been a net profit of Rs.10,135,082 as compared with the net profit of Rs.19,270,251 for the preceding year thus indicating a deterioration of financial results by Rs.9,135,169 or 47 per cent as compared with the preceding year. The increase of revenue by a lesser value of Rs.126,600 and the increase of expenditure by Rs.15,510,999 as compared with the preceding year had directly attributed to this deterioration.

3.2 Analytical Financial Review

According to the financial statements, a net profit had indicated but according to the cash flow statement, the net cash flow had become a negative balance of Rs.4,583,276. The increase of debtor balance by Rs.15,769,847 had directly attributed to this position. Even though the current ratio of the Company had indicated as 3:1, the bank overdraft balance had represented 19 per cent of the current assets. The debtor balance of Rs.98,155,014, as at the last date of the year under review had represented 90 per cent of the value of total current assets. Furthermore, the fixed assets of the Company had represented a very low percentage of 0.86 of the total assets.

In analysing the liquidity ratio of the Company, the quick ratio had indicated 2:6, but it was observed that it was not a satisfactory level as the existence of debtor balances not recovered for a long time. The debtors turnover ratio of 4 times in the preceding year, had decreased to 3 times by the year under review. The above adverse position was further established being the actual debt collection period had been 122 days even though the normal debt collection period of the Company was 30 days.

4. Operating Review

4.1 Performance

According to the Memorandum of Association, the Company can be able to extent its services under 56 various fields and carry on businesses but its business activities had been limited only to 4 fields namely the Press, Canteen, Cleaning and Security Services, even though more than 35 years had elapsed after the establishment of the Company. The Company did not have a pre-planned program to promote its business activities as well.

4.2 Management Activities

The following observations are made.

(a) Replies to 19 audit queries issued to the Company relating to the year under review had not been presented and the delays had ranged from 15 days to 361 days.

(b) There was no limit to pay advances to various purposes of the Company and no proper records had also been kept. Further, it was the policy of the Company that an advance be paid after being settled the previous advance and 7 days has been given to settle the advance. However, advances had been granted, disregarding that policy. Non settlement of advances totalling Rs.152,739 given to a female trainee clerk served in the canteen in 3 instances and it had been delayed for 150 days up to 08 May 2015, the date of audit were cited as examples in audit.

4.3 Operating Activities

The following observations are made.

(a) The Company had operated such business activities as the Printing Press, Canteen and the Supply of Cleaning and Security Services in the year under review and the matters observed at audit test checks carried out on the operations of the press and the canteen are given below.

(i) The total revenue and expenditure of the year 2015 in the press consisting of 16 staff members, amounted to Rs.13,682,281 and Rs.15,552,247 respectively, thus showing a loss of Rs.1,869,966. Non assignment of proper duties and segregation of functions among the staff, employed for this business operation, a lack of internal control system, subjected to supervise one’s duty by an executive officer and non-maintenance of proper stock records under a supervision in respect of receipts and issue of materials in the stores, required for manufacturing purposes had directly attributed to this loss.

(ii) The revenue, expenditure and the profit of the two canteen operated in the National Youth Services Council Premises during the year under review, amounted to Rs.39,895,120, Rs.39,632,749 and Rs.262,371 respectively. Twenty employees including the Manager were in service therein and a sum of Rs.9,713,780 had been paid as their salaries and allowances during the year 2016, representing 25 per cent of the total expenditure of the year. As there was no any other business competitor within the Council premises and a lot of external persons come daily for programs conducted in the main auditorium regularly, there was a favourable environment for business operations therein. Nevertheless, the management had not utilised such opportunity and operated the business by earning very marginal profit. The following operating weaknesses had mainly attributed to this situation.

* Purchase to the canteen, payments and settlements of advances, sales, collection of revenue banking of daily collections etc. were not subjected to a proper internal control system.

* As there was no proper segregation of duties and assignment of works among the staff, employees had not been deployed at a maximum efficiency.

* All food items and bakery products had been purchased outside without being made internally.

(b) As the Company had operated without proper financial management, bank overdraft facilities under high interest rates had been obtained for its working capital requirement and the value of bank overdraft as at 31 March 2016 amounted to Rs.297,288.

4.4 Resources of the Company given to other entities

In terms of Paragraph 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, permission had not been granted to utilise the resources of Public Enterprises by other government entities. However, an employee of the Company had been attached to the Gampaha Office of the National Youth Services Council on the basis of reimbursement of salaries. Even though, salaries and wages totalling Rs.1,447,592 had been paid to him by the company up to 31 March 2016, the Council had not reimbursed that money.

4.5 Personnel Administration

The following observations are made.

(a) According to the information made available for audit, the approved cadre of the Company was 84 out of which 22 vacancies relating to 16 posts, and the excess cadre in 7 posts was 12. Four officers had been recruited to 4 posts which were not included in the approved cadre and contrary to the approved scheme of recruitments. They had not fulfilled even the basic qualifications relevant to those posts.

(b) According to a test check, formal assignment of duties had not been made for7 out of 13 officers.

(c) Even though, the contract period of 6 officers who had been recruited on contract basis for a period of 6 months had elapsed by 30 April 2016, the date of audit, their service agreement had not been terminated and they had been allowed to work continuously without entering into a new service agreement.

(d) Even though, in the new recruitments or in filling vacant posts, the officers should be placed in the salary scales included in the approved scheme of recruitments, salaries had been paid to officers recruited to the same post in placing various salary scales.

5. Accountability and Good Governance

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5.1 Presentation of Financial Statements

In terms of Section 150 of the Companies Act No.07 of 2007, the financial statements should be prepared within 6 months of the ensuing year after a financial year. However, the financial statements of the Company for the year ended 31 March 2016 had been presented on 27 February 2017, after a delay of 149 days.

5.2 Corporate Plan

A corporate plan for the company had not been prepared in terms of Paragraph 5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

5.3 Action Plan

An action plan for the year under review had not been prepared by the Company in terms of Public Finance Circular No.01/2014 of 17 February 2014.

5.4 Internal Audit

An internal audit unit had not been set up in the Company. Even though the National Youth Services Council had informed the Committee on Public Enterprises met on 03 December 2013 that an internal audit can be performed since the year 2014, internal audit functions had not been carried out even by the Internal Audit Division of the National Youth Services Council.

5.5 Budgetary Control

An annual budget estimate had not been prepared in terms of Paragraph 5.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

6. Systems and Controls

Weaknesses in systems and controls observed in audit had been referred to the attention of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of systems and controls.

	Areas of systems and control	Observations
(a)	Budgetary Control	Action not taken to prepare the annual budget estimate and perform accordingly in compliance with the performance, plans and targets of the Company.
(b)	Accounting	Non-maintenance of adequate books and financial records by indicating all the financial result of each business operation of the company separately and the overall financial result.
(c)	Human Resources Management	Segregation of works in a manner by specifying the responsibility in terms of his duties and written assignment of duties in a manner that one officer's work should be supervised by another officer had not been carried out.
(d)	Purchases Control	Purchases not carried out in accordance with the procurement guidelines and not maintained records adequately.
(e)	Stores Control	Sufficient control systems in respect of stores not maintained, ensuring proper posting of stores receipts and issues and safeguard of goods.
(f)	Debtors and Creditors Control	Action not taken to keep accurate particulars in respect of debtors and creditors and to settle lapsed balances.