

## **National Youth Corps – 2015**

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The audit of financial statements of the National Youth Corps for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in net assets 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 17 of the National Youth Corps Act, No. 21 of 2002. My comments and observations which I consider should be published with the Annual Report of the Corps in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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**

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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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corps’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 Corps’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 Establishment and the Operation of the Institution**

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The Youth Corps had been established by the National Youth Corps Act, No. 21 of 2002. All expenses from the year 2002 up to the year 2014 had been brought to account under the Head of Expenditure of the then line Ministry. The approval had been received on 10 February 2011 to amend the Corps Act and to delegate the administrative and financial authority to the Director of the Corps by considering the Corps as an institution with legal personality as proposed by the Cabinet Memorandum presented on 18 January 2011 regarding the failure to specify the category of which the Youth Corps was included as per the Act and other issues. Nevertheless, the Act had not been amended accordingly. However, the final financial statements for the year 2015 as the first set of accounts of the National Youth Corps had been presented to audit on 27 March 2017 and the powers for audit of accounts of the Corps had been vested in the Auditor General in terms of Section 17 of the relevant Act. Further, when recording the opening balance for the financial statements of the year 2015 by the Corps, the period from the year 2011 up to the end of the year 2014 had been considered.

## **1.5 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Youth Corps as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

#### **Sri Lanka Public Sector Accounting Standard 07**

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- (a) In terms of Section 43 of the Standard, an appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. Nevertheless, when accounting the assets of the Corps in the year 2015, the relevant assets had been revalued by the staff of the Corps.

- (b) Even though the depreciation of an asset begins when it is available for use in terms of Section 69 of the Standard, the Corps had selected a contradictory policy for the depreciation of assets.

### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) The recurrent expenditure amounting to Rs.712,054 incurred on motor vehicles during the year under review and an expenditure of Rs.1,139,962 which could not be considered as improvements for building had been capitalized.
- (b) A sum of Rs.662,500 relating to the “Pawrushabhimaani” Programme, payment of advances totalling Rs.350,786 and purchases of fixed assets and stocks valued at Rs.837,753 in the year 2014 had been shown as other establishment expenses instead of accounting as assets in the statement of financial position , thus the deficit of the year had been overstated by Rs.1,851,039.
- (c) A sum of Rs.6,337,732 spent on “Pawrushabhimaani” Programmes and the Art Festival (*Kala Ulela*) in the preceding year had been shown as expenditure on programmes during the year under review instead of being adjusted to the profit of the preceding year.
- (d) A stock of IBPO Training Kits valued at Rs.11,468,480 received as a donation on 21 June 2014 had not been brought to account.
- (e) Uniforms valued at Rs.432,255 used at passing out and stock of journey mattress valued at Rs.740,800 destroyed during the year under review had been included in the annual expenditure on uniforms and maintenance of furniture and office equipment respectively.

### 2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions

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The instances of non-compliance observed during the course of audit are given below.

#### Reference to Laws, Rules and Regulations

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#### Non -compliance

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- (a) National Youth Corps Act,  
No.21 of 2002  
Section 2(4)

Three committees for the purpose of vocational training, youth development and placement as are necessary for the administration of the affairs of the Youth Corps Council had not been appointed.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka  
Financial Regulation 571(3)

Money held in suspense in a deposit account, pending receipt of particulars, should not be left in deposit to be treated as lapsed deposits, but should be credited to the proper account or to Revenue, as the case may be, or refunded as soon as possible. Nevertheless, action had not been taken accordingly and the retention money totalling Rs.159,334 pertaining to the year 2013 had been retained in the deposit account.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the total income of the Corps for the year ended 31 December 2015 amounted to Rs.553,015,706 including the Treasury recurrent grants of Rs.512,793,466 and the total expenditure amounted to Rs.563,585,367. Thus, a deficit of Rs.10,569,661 was observed in the year under review.

#### **3.2 Analytical Financial Review**

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Even though the current ratio was 5.63:1, the quick ratio stood at 0.66:1 and the reason therefor had been the representation of stock at 88 per cent in the current assets.

### **4. Operating Review**

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#### **4.1 Performance**

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In terms of Section 3 of the National Youth Corps Act, No.21 of 2002, the objectives of the Corps are youth development, employment training and vocational education. The following observations are made regarding the achievement of those objectives.

- (a) Even though out of 7,697 students enrolled as first and second batch for 35 centers in January and July of the year under review, 4,936 students had successfully completed the course, only 4,629 students had sat for the Skill Examination for the Certificate of National Vocational Qualifications. Out of that, only 4,385 students had passed the examination. However, 1,842 out of the said students had not received the certificates and the reason therefor had been the delay of the external institution from which the certificates were issued.
- (b) Out of the students enrolled, 2,471 students had dropped out the course.

- (c) The number of students not completed the course though not dropped out the course stood at 290 and the number of students not sat for the evaluation test though completed the course had been 307.
- (d) A payment of Rs.23,980,610 had been made to an external Vocational Training Institution in the year under review for directing 2,796 students to obtain the Certificate of National Vocational Qualifications (NVQ 3/4). Nevertheless, only 1,710 students had successfully completed the training and it represented a low percentage as 22 per cent of the students enrolled in the Corps.

#### **4.2 Transactions of Contentious Nature**

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The following observations are made.

- (a) The Youth Corps had incurred an expenditure of Rs.6,403,951 in the year 2015 for the participation in the parade at the 67<sup>th</sup> Independence Day and it was observed in audit that the said expenditure was not in compliance with the objectives of the Corps.
- (b) According to the financial statements of the year 2015, a sum of Rs.810,812 had been charged as fees for Hotel Courses. However, the details of an approval obtained from the Council for charging fees in respect of such courses or details of determining the course fees had not been made available to audit.
- (c) An expenditure of Rs.1,886,281 incurred for the Small Enterprises Development Sector which does not come under the Youth Corps had been shown as the expenditure of the Corps in the financial statements of the year 2015.

#### **4.3 Uneconomic Transactions**

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In terms of Sub-section 5(4)(e ) of the Payment of Gratuity Act, No.12 of 1983, in case of a suspension of payment of gratuity for a period over one year since the due date , a surcharge of 30 per cent of the gratuity recoverable should be paid. A surcharge of 30 per cent amounting to Rs.206,459 had to be paid to 10 employees due to the inefficiency of the Corps. Further, it was observed that, this surcharge had been debited to the Gratuity Account.

#### **4.4 Idle and Underutilized Assets**

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Two motor vehicles of which the assessed value amounted to Rs. 2,000,000 and included as motor vehicles in the financial statements by the Corps though the documents confirming the ownership was not made available to audit, had not been used throughout the year under review. Further, it was observed that one motor vehicle out of the above, was decaying in an unprotected manner in the premises of the institution even by 30 May 2017, the date of audit, while the other motor vehicle was parked at the Sri Lanka Vocational Training Institute.

#### **4.5 Commencement of Projects in Lands/ Properties not properly vested**

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The following observations are made.

- (a) The Youth Corps Center at Thanamalwila housed in a building constructed at a cost of Rs.4,630,000 in a land belonging to the Sarwodaya had been closed down on 15 July 2013. Even though the losses of Rs.1,049,223 sustained in the use of buildings and the net value amounting to Rs.1,449,047 of the building after deducting depreciation should be recovered within 30 days in terms of the relevant agreement, those had been recovered in 3 instances during the year 2015.
- (b) It was observed that the Corps did not have the ownership of the lands where the buildings used for the National Youth Corps as identified according to the financial statements presented to the audit. Despite the lack of such legal ownership, it was observed that an expenditure of Rs.30,058,546 had been incurred in the year under review for the constructions in lands where the Head Office and other buildings maintained by the Centre were located.

#### **4.6 Staff Administration**

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The approved cadre as at 31 December 2015 had been 676 consisting a permanent staff of 319 and a staff of 357 on contract basis. Seventeen vacancies existed in the approved staff of the Corps and 109 vacancies existed in the staff on contract basis while no action had been taken to make recruitments for those vacancies.

#### **4.7 Utilization of Motor Vehicles**

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Eight vehicles valued at Rs.27,401,000 belonging to other institutions and being used by the Corps had been brought to accounts as the motor vehicles of the Corps.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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Even though the accounts should be presented within 60 days after the close of the year of accounts in terms of Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements of the year 2015 had been presented to the Auditor General only on 23 March 2017.

#### **5.2 Budgetary Control**

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Variances ranging between 64 per cent and 92 per cent were observed between the estimated and actual values of 05 Items of non-recurrent assets in the year under review. Thus, it was observed that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Director of the Corps from time to time. Special attention is needed in respect of the following areas of systems and control.

### Areas of Systems and Controls

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### Observations

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| (a) Accounting                         | Non-maintenance of the Main Ledger and failure to carry out account reconciliations adequately.               |
| (b) Control over Inventories           | Weaknesses in the maintenance of registers and the existence of stocks not brought to accounts.               |
| (c) Budgetary Control                  | Variances existed between the estimated expenditure and actual expenditure of the capital Objects.            |
| (d) Maintenance of Information Systems | Failure to obtain the updated information of the Information System introduced, in an easy and speedy manner. |