Sri Lanka Youth Services (Pvt) Ltd – 2016/2017

The audit of the financial statements of the Sri Lanka Youth Services (Pvt) Ltd. for the year ended 31 March 2017, comprising the statement of financial position as at 31 March 2017, 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

(a) In terms of Paragraph 138 of the Sri Lanka Accounting Standard 01, even it shall be disclosed in the financial statements, the information such as address of its registered office, nature of its operations and activities, the business places, the name of the parent company and the length of its Life, had not been disclosed.

Further, contrary to the Paragraph 32 of the Standard, a balance receivable amount of Rs.150,000 had been offset against a balance receivable amount of Rs. 1,491,156 and shown in the financial statements.

(b) In terms of the Sri Lanka Accounting Standard 24 – Disclosure of Related Parties related party transactions with 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.

(c) In terms of the Sri Lanka Accounting Standard 12, even the major components of the tax expenses and information relating to the income tax computation shall be disclosed in the financial statements it had not been disclosed.

(d) In terms of Paragraph 51 of the Sri Lanka Accounting Standard 16, even the useful life the Property Plant and Equipment shall be annually reviewed, as it was not complied, 22 items of assets valued at Rs.8,592,843 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. However, according to the Accounting Policy mentioned in the Notes No. 3.1.2 of the Financial Statements, it was stated that the useful life of the assets and depreciation rates are annually reviewed.

(e) According to the Statement of Financial Position as at 31 December of the year under review, the loan balance receivable from the National Youth Services Council was amounting to Rs.63,454,032 whereas according to the balance confirmation from the National Youth Services Council it was amounting to Rs.110,750, thus it was observed an unidentified difference of Rs.63,343,282.

(f) Provision for gratuity for the year under review had been understated by Rs. 53,675. Even though amount of Rs. 15,613,758 had been shown as provision for Gratuity in the Statement of Financial Position as at 31 March 2017, relevant Accounting Note had not been presented.

(g) It had been added an Air Condition Machine cost of Rs. 114,400 to the Property Plant and Equipment as at the 31 December of the year under review as acquired on credit basis. However, the value of Property Plant and Equipment and creditors had been over stated by similar amount since such a machine had not been purchased.

(h) The evidences were not presented to the audit relating to the sum of Rs. 1,341,156 payable to related parties which was stated under trade and other payables in the financial statements. However, according to the confirmation from relevant related parties it was revealed that there was such a balance to the name of Sri Lanka Youth Services (Pvt) Ltd. Further, contrary to the Paragraph 32 of the Sri Lanka Accounting Standard 01, a balance receivable amount of Rs.150,000 had been offset against a balance payable amount of Rs. 1,491,156 and shown in the financial statements.

(i) The detailed Schedules relating to the 04 balances totaling Rs. 3,005,272 coming before from the year 2013 which were shown under other receivable in the statement of financial position had not been presented.

(j) The balance confirmations of debtor balances totalling Rs. 42,175,162 was not presented to the audit

(k) Of the debtor balance totalling Rs. 105,629,194 as at 31 March 2017, 37 per cent had belonged to the period of over 01 year and the value of debts remained for over 3 years amounted to Rs. 7,103,342. There was no a formal program within the entity to recover these loans. Furthermore, provision had not been made in respect of above loan balances even it had been stated in the accounting policy number 3.3 of the financial statements as doubtful debts had been provided.

(l) Due to the fact that dividend tax liability amount of Rs. 475,580 had not been included in the income tax value, the tax expenditure and the income tax liability for the year had been understated by Rs. 475,580.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Paragraph 1.4 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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No 07 of 2007, I state the following:

(a) The basis of opinion, scope and limitations of the audit are as stated above.

(b) In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion Paragraph,

- All the information and explanations that were required for the audit have been obtained and, as far as appears from my examination, proper books and records have been kept by the Company.

- The financial statements of the Company comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

2.3 Non-compliance with laws, rules, regulations and management decisions

The following non-compliances were observed.

	Reference to Laws, Rules and Regulations	Non-compliance
(a)	The sections 47 and 49 of Employees Provident Fund Act No.15 of 1985.	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.
(b)	Section 133 of the Companies Act No.07 of 2007.	An annual general meeting should be held once a calendar year, but an Annual General Meeting had not been held relating to the year 2016/2017.

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. 5, 737,553 as compared with the net profit of Rs. 10,135,082 for the preceding year thus indicating a deterioration of financial results by Rs.4, 397,529 or 43 per cent as compared with the preceding year. The decrease of revenue by Rs. 23,902,948 and the increase of direct expenditure by Rs.8, 684,453 and decrease of administration expenditure of the security by Rs. 27,732,675 as compared with the preceding year had directly attributed to this deterioration.

In analysing the financial performance of the year under review and previous 04 years, even the net profit of the year 2014/2015 had been continuously increased to Rs. 19,270,251 from the net profit of Rs. 12,701,104 of the year 2012/2013, it had been continuously decreased to Rs. 10,135,082 in the year 2015/2016 and up to Rs. 5,737,553 in the year under review. Even though, the contribution had been made by the Company by way of payment of salaries to employees, payment of taxes to the Government and the depreciation had been continuously improved from Rs. 149,214,502 in the year 2012/2013 to Rs. 206,401,494 when the year 2015/2016, it had been decreased to Rs. 177,679,584 in the year under review.

3.2 Analytical Financial Review

According to the financial statements, the net profit of the year under review was Rs. 5,737,553 and even it had been deteriorated by 43 per cent, according to the cash flow statement, the net cash flow was amount of Rs.7, 377,384. The net cash flow of the previous year was a negative value of Rs. 5,175,868. Accordingly, net cash flow of the year under review had been increased by 242 per cent or by Rs. 12,553,252 and increase of trade and other payable balance by Rs. 7,523,310 was directly affected to this improvement.

In analysing the liquidity ratio of the Company, the current ratio and quick ratio had indicated 2.6:1 and 2.5:1 respectively, but it was observed that it was not a satisfactory level as the existence of debtor balances not recovered for a long time. Further, even the sales income had been decreased by 9 per cent; direct expenses had been increased by 25.5 per cent in the year under review. As a result, gross profit had been decreased by 14.5 per cent.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) In accordance with the Public Finance Circular No. 01/2014 dated 17 February 2014, even the whole responsibility of the Board of Directors to drive the organization to accomplish the set targets according to the Corporate Plan prepared for minimum period three year period to manage affairs with a short term and long term vision, a corporate plan for the company had not been prepared.

(b) In terms of paragraph 5.2 of above Circular, an Action Plan incorporating commercial activities to be implemented in next financial year should be prepared and it should be included the Budget Estimates, proposed main Investments Capacity Expansions, Annual Procurement Plan including Major Procurements, Human Resource Development Plan and Internal Audit Plan. However, such matters had not been included in the Action Plan Prepared by the Company for the year under review.

4.1.2 Performance and Review

Even a Plan had been prepared for the year 2017 with the objective of increasing the income of two canteens operated by the Company, 07 main proposals included therein had not been implemented even at the end of the year under review.

4.2 Management Activities

Replies to 19 audit queries issued to the Company relating to the previous year and a query issued in the year under review had not been presented even as at 30 July 2018.

4.3 Operating Activities

The following observations are made.

(a) According to the Memorandum of Association, the Sri Lanka Youth Services (Pvt) Ltd can be able to extent its services under 56 various fields. Even the management had informed to audit that its services are extended in the year under review, no actions had been taken even up to 30 May 2018 and its business activities had been limited only to 4 fields.

(b) The short eats which having a high demand had been purchased from outside without preparing internally even two cooks and five assistance cooks had been employed in the canteen operated by the Company. As such it had been sold at lower margin and actions had not been taken to increase the income by preparing that food internally.

(c) According to the Future Plan of the year under review, planned average lunch packets per day within a month which expected to prepare for sale was 300 by employing 07 employees in the kitchen. However, average lunch packets had been prepared in the month of March 2017 was only 95. It was able to increase the income by supplying foods for the programs implemented within the Councils by having a proper coordination with those programs. However, according to the sample audit test, attention had not been given to earn the income by supplying foods to those internal programs.

(d) According to the section 113 of the Inland Revenue Act No. 10 of 2006, Income Tax had not been paid and according to the section 106 of the Act, Income Tax Returns had not been furnished for the year under review and past 05 years. However, amount of Rs. 10,981,533 had been provided as Income Tax Payable at the end of the year under review. According to the calculations of audit observed that in terms of the section 173(3) of the Act, penalty of Rs. 4,655,091 could be imposed by the Inland Revenue Department due to default of Income Tax.

(e) According to the section 117/117A of Inland Revenue (Amended) Act No. 10 of 2006, even PAYE tax to be paid deducted from Salary, it had not been deducted PAYE tax from two officers of the Company and it had not been registered for PAYE tax.

(f) According to the section 2(2) of the Economic Service Charge (amended) Act No. 13 of 2006, Economic Service Charge to be paid when the quarterly turnover exceeds the Rs. 50 million. However, it had not been registered under the Act even the quarterly turnover was Rs. 58,468,619. Therefore, it was observed that amount of Rs. 1,169,372 as Economic Service Charge and amount of Rs. 157,800 as Penalty therein had to be paid.

(g) According to the section 10 of the Value Added Tax (amended) Act No. 14 of 2002, it should be registered under Value Added Tax Act when the quarterly turnover of the Company exceeds the Rs. 3,000,000 or annual turnover exceeds Rs. 12,000,000. However, it had not been registered under the Value Added Tax Act even the quarterly turnover of the Company was Rs. 58,468,619.

(h) According to the section 3 of the Nation Building Tax (amended) Act No. 09 of 2009, Nation Building Tax shall be paid by that Company when the quarterly turnover exceeds the Rs. 3 million. However, it had not been registered under the Nation Building Tax Act even the quarterly turnover was Rs. 58,468,619. Therefore, it was observed that amount of Rs. 4,677,489 as Nation Building Tax and amount of Rs. 631,400 as Penalty therein had to be paid by the Company.

(i) The Company had not registered under the Stamp Duty (special Provision) Act No.10 of 2008 (Amended) and even as per the Act when gross salary of employee exceeds Rs. 25,000 a Stamp Duty of Rs. 25 to be charged, it was revealed in the sample test that Stamp Duties had not been deducted from 11 officers whose monthly gross salary exceeds Rs. 25,000.

(j) An advance register had not been maintained in relation to payment of advances and unsettle advance balance as at 31 March 2017 was Rs. 721,805.

(k) Even matters had been disclosed in previous Auditor General’s Report that the Company had operated without proper financial management, as a bank overdraft had been continuously maintained even in the year under review, Overdraft Charges amount of Rs.398, 607 and Discount Charges on discounting the cheques prior to clear amount of Rs. 526,709 had been paid for the financial year 2016/2017.

4.4 Resources of the Company given to other entities

In terms of Paragraph 8.3.9 of the Public Enterprises Circular number 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 from December 2010. Even though, salaries and wages totalling Rs.1, 923,532 had been paid to him by the company up to 31 March 2017, 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 and out of which 25 was vacant as at 31 March 2017. It was 30 per cent of approved cadre and it was included an Accountant Post and 2 Assistant Accountant Posts. However, an Assistant Accountant Post had been filled as at 31 December 2017.

(b) 3 officers had been recruited to 3 posts over the approved cadre.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the letter number NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the United Nations Sustainable Development “Agenda” by 2030. With respect to the year under review, the Company had not been aware as to how to take measures relating to the activities under purview of their scope. Consequently, the Company was failed to take actions to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

6 Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of Paragraph 6.5.1 of the Public Enterprises Circular number PED/12 of 02 June 2003, the financial statements should be submitted to the Auditor General within 60 days after the end of the accounting year. However, the financial statements of the Company had been presented on 11 December 2017, after a delay of 193 days.

6.2 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.

6.3 Budgetary Control

An annual budget estimate had not been prepared in terms of Paragraph 5.2 of the Public Finance Circular No. 01/2014 of 17 February 2014 for the year under review.

7. 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 relating to the accounting, books, records and documents
(c)	Internal Control	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)	Stores Control	Sufficient control systems in respect of stores not maintained, ensuring proper posting of stores receipts and issues and safeguard of goods.
(e)	Debtors and Creditors Control	Action not taken to keep accurate particulars in respect of debtors and creditors and to settle lapsed balances.