

National Youth Corps – 2016

The audit of financial statements of the National Youth Corps for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, 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 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 Institute in terms of Section 14(2) (c) of the Finance Act appear in this report. A detailed report in terms of section 13(7)(a) of the finance Act was furnished to the Chairman of the Corps on 06 September 2018.

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 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

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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the National Youth Corps as at 31 December 2016 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

In terms of Section 118 of the standard, Cumulative profit / loss in the statement of changes in net assets, that should be shown as a translation reserve.

(b) Sri Lanka Public Sector Accounting Standard 07

Even though the depreciation of assets begins when it is available for the use in terms of Section 69 of the standard, the corps had prepared a contradictory policy, to depreciate the asset from the year which it had been purchased. According to that a well valued at Rs.761,743 which had been constructed during the year under review and though it had been prepared for use on 6 June 2017, it had been accounted under land and building for the year under review and Rs.38,087 had been accounted as the annual depreciation.

2.2.2 Unexplained Differences

Even though the capacity building expenses for the year under review had been accounted as Rs.8,898,052, according to the information obtained from the Training Division it had been Rs.8,578,220 and a difference of Rs.319,832 had been observed.

2.2.3 Lack of Evidence for Audit

The following observations are made.

	Subject	Value Rs.	Evidence not submitted
	-----	-----	-----
(a)	Accrued Expenses Vocational Training (decrease of the balance during the year)	336,600	Confirmation relating to the settlement

(b)	Vocational Training expenses	13,452,896	Information relating to the institute that the trainee had been directed for deficient training.
-----	------------------------------	------------	--

2.3 Money Receivables

National Youth Corps had incurred Rs.2,182,203 for water and electricity for the year under review and Rs.2,180,075 for 2015 totaling Rs.4,362,778 for a external party and those had not been recovered even as at 31 December 2016.

2.4 Non-compliances with Laws, Rules Regulations and Management Decisions

In terms of section 2(4) of National Youth Corps Act No 21 of 2002 three committees had not been appointed for the purpose of vocational training, youth development and placement which are necessary for the administration of the affairs of The Youth Corps Council.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corps for the year ended 31 December 2016 had resulted in a surplus of Rs. 45,241,241 as against the deficit of Rs.11,053,605 for the preceding year, thus indicating an increase of Rs.56,294,846 in the financial result. Recurrent grants including the increase of total income had been mainly attributed for this.

3.2 Analytical Financial Review

The Corps income of the year under review was amounted to Rs.806,652,133 out of that a sum of Rs.291,479,858 or 36 per cent for salaries, wages and employee's remuneration for the year and Rs.224,657,531 or 27 per cent for allowances of the students and training and youth development programs had been incurred.

Under the budget proposals a sum of Rs.548,467,200 had been received from the General Treasury for the year under review to construct of new centers for Pilot Projects for the Corps and new thirteen centers had been started. A sum of Rs.170,878,675 and Rs.377,588,525 had been incurred as recurrent and capital expenditure respectively. However it was observed that most of the expenditure had been spent for supply food for the trainees who were in the prevailing centers, provide uniform and repairs of the training centers.

3.3 Working Capital Management

Current ratio and the quick ratio of the corps for the year under review and the preceding year are shown below.

Liquidity Ratios	2016	2015
-----	-----	-----
Current ratio	1.57 : 1	6.11 : 1
Quick ratio	1.04 : 1	0.79 : 1

It was observed that increase of the current liabilities caused to decrease of the current ratio, increase of cash and others receivables had been caused to increase of the quick ratio.

4. Operating Review

4.1 Performance

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 development. The following observations are made regarding the achievement of those objectives.

- (a) Eleven thousand nine hundred and seventy eight trainees had enrolled as first and second batch of the year under review and out of the trainees enrolled, 4,515 trainees had dropped out the course and 7,463 trainees had completed the course successfully. However out of the trainees who had successfully completed the course only 5,762 had sit for the certificate of National Vocational Qualification. Even though 5,342 trainees had passed the evaluation test certificates had been issued only for 4,397 and 945 trainees had not received the certificates due to lack of availability of the National Identity Card etc. In examining regarding completion of the course it was observed though the number of centers had been increase from 35 to 48, progress of the course had been decrease from 68 per cent to 62 per cent.
- (b) According to the budget proposals in 2016, 13 new centers had been started by the Corps. 1,264 students had been enrolled in the second group of the year 2016 for these centers, and out of that 645 students or 51 per cent had dropped out the course.
- (c) Although 3,523 students had been directed to the vocational training by the Corps spending Rs.13,452,896 for the year under review 1,060 students had dropped out the course.
- (d) The average student capacity that can be provide by the Dambulla Hotel School for a half year is about 250. Only 57 students had completed the course in first half year and 233 students in second half year by spending Rs.4,003,270 in the year 2016. It was observed in audit that resources utilization of the Hotel School was not in satisfactory level.

- (e) Seven thousand four hundred sixty three students had completed the course for in year under review and 5,226 students had completed in the preceding year. However pass out expenses were Rs.6,423,121 and Rs.13,832,168 respectively and, all the expenses incurred in 2016 for the pass out had not been debited to the dissolution account was the reason for this.

4.2 Transaction of Contentious Nature

The following observations are made.

- (a) The Youth Corps had incurred an expenditure of Rs.263,176 for the year under review for participation in the parade of 68th Independence Day and it was not in compliance with the objectives of the institute.
- (b) A sum of Rs.440,900 had been charged from the trainees as a Hotel Course fee in the year 2016. 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) In the year 2016 income of Rs.1,908,075 had been received as a income by conducting 13 external training programs and Rs.1,166,328 had been incurred as expenditure. Approval had not been obtained from the council of the Corps to conduct external programs and what basis of charging fees for programs and expenses details had not been furnished for the audit.
- (d) In the year under review Educational Tour had been organized for 665 trainees from 15 training centers and 115 staff and other officers and expected participation was 780. But actual participation were 558 trainees, 163 staff and other officers totaling 721 and total expenditure incurred for this had been Rs.3,328,514. However, staff and other officers participation had been gone up instead of the trainees participation and it was observed that objective of participating the trainees for the education tour had not been achieved.
- (e) China government had provided Rs.13 million for the year under review to establish three China Language Laboratories in Dambulla, Galle and Dicwella Corps centers. But only Dambulla laboratory had been established.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a) It was observed that 588 office chairs purchased during the year valued at Rs.4,580,520 and 4,150 Seminar Hall chairs valued at to Rs.24,682,320 had been kept idle in the stores at Diyulapitiya and Paduwasnuwara even by 31 August 2018. Director had informed that due to delay in completing the construction had been the reason for this situation.

- (b) A sum of Rs.3,239,971 had been incurred for the development of Centre Superintendent hostel situated in Nuwaraeliya to convert as a holiday resort in the year under review. Proper procedure had not been introduced for using this and building was in underutilized even by 31 August 2018.
- (c) It was observed that 07 items relevant to 43 units of goods valued at Rs.2,151,580 purchased during the year under review were idling at the Yakkala main stores even by 20 September 2018.

4.4 Commencement of Projects on Lands / Property not Properly Vested

It was observed that the value of the lands had not been stated in the financial statements furnished to audit, due to the lack of ownership of the lands of those buildings are situated and used by the Corps. A sum of Rs.66,469,092 had been spent to for additions to the building in the year under review. Even though ownership of those lands had not been legally acquired.

4.5 Staff Administration

The approved cadre as at 31 December 2016 had been 880 consisted with a permanent staff of 509, 311 on contract basis staff and 60 staff work on hourly rate basis. It was observed that even though 93 vacancies had been prevailed in the permanent staff, 46 contract basis staff had been recruited for these vacancies and those posts are consultants for English, Tamil and Information Technology. There were 66 vacancies in contract basis and 4 vacancies in hour rate basis had been existed.

4.6 Utilization of Motor Vehicles

Ten Vehicles valued at Rs.35,401,000 belonging to other institutions and being used by the Corps had been brought to accounts as the motor vehicles of the Corps and it had been 91 per cent of the motor vehicles included in the statement of financial position.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

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 2016 had been presented to the Auditor General on 20 February 2018 with a delay of about one year.

5.2 Budgetary Control

As variances ranging from 72 per cent to 100 per cent were observed between the estimated and actual values of 11 objects 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.

5.3 Procurements and Contract Process

5.3.1 Procurement

(a) **Main Procurement Plan**

The Corps had not prepared the main procurement plan in terms of paragraph 4.2 of the Government Procurement Guideline.

(b) **Deviation from the Procurement Guideline**

(i) In terms of Procurement Guideline 2.3.2(c) it should be forwarded to the Technical Evaluation committee for getting the approval of preparation of draft bidding documents including specifications review and get the approval. But the Technical Evaluation committee had been appointed after the bid document calling period was over.

(ii) In terms of Procurement Guideline 5.4.12 details of payment of VAT had not been informed to the Commissioner of Inland Revenue with a copy to Auditor General.

(c) **Deficiencies in Procurement Process**

(i) As per paragraph 5.2 of the National Budget Circular dated 17 March 2016 the prior approval of the General Treasury should be obtained before commencing the procurement process, but in the year 2016 twelve three-wheelers valued at Rs.7,176,000 had been purchased from a private company before getting the approval and details of the three-wheelers had not been included in a Fixed Assets Register, Even though three-wheelers had been purchased for training centers, as the driving posts had not been included in the approved cadre, the officers in the Training Centers, who were not drivers had driven those three-wheelers.

(ii) The Institute which forwarded the minimum price had been rejected due to the lack of signature of the Technical Officers in the Quality Certificate obtained for the supply of uniforms to trainees and procurement had been offered to the institution furnished second minimum bid of Rs.64,950,053.

(iii) Passing out uniform set consist with items like 5,000 trousers, 3,196 shirts, 10,000 white vest, 500 belt, 620 "Berates" hats and 1,299 pair of boot shoes had been purchased by spending Rs.13,666,162 in the year under review.

(iii-i) In terms of Procurement Guideline 5.6.1 specifications had not been prepared for the shirt of the passing out Uniform Even though the specification had not been prepared, basis on the minimum price had not been selected and as a result an over expenditure of Rs.1,000,000 had been incurred.

(iii-ii) Purchasing order had been offered before getting a quality report from a qualified institution for shirts and sample of trousers of the uniform set.

(iii-iii) Private Institution supplied to the main stores at yakkala 500 long trousers and 500 vest on 2 December 2016, even though agreement had been signed on 5 December 2016.

5.4 Tabling of Annual Reports

Annual report for the year 2015 had not been tabled in the Parliament even as at 31 August 2018.

6. Deficiencies in Contract Administration

Contracts had been awarded to a agreed value of Rs.1,616,321,467 for 56 constructions in the under review and Rs.218,231,200 had been paid as mobilization advances. As per the physical progress as at 31 December 2016 only 2 constructions had been completed 45 per cent and all the other constructions progress was between 5 per cent to 25 per cent.

7. Systems and Controls

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

Area of Systems and Controls	Observation
(a) Accounting	Non maintenance of an accounting system for function of the accounts.
(b) Inventory Control	Weakness in the maintenance of registers.
(c) Budgetary Control	Variances existed between the estimated expenditure and actual expenditure of the objects.
(d) Maintenance of Information System	Failure to obtain the updated information of the Information System introduced in an easy and speedy manner.
(e) Procurement	Maintenance of informal procurement files and deficiencies in procurement procedure.