National Youth Corps – 2017

The audit of financial statements of the National Youth Corps for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 the 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Corps on 07 January 2019.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corp'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 Corp'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 Basis for qualified opinion

My opinion is qualified based on the matter 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 National Youth Corps as at 31 December 2017 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 paragraph 69 of the standard, the usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. Accordingly, an entity should be in a position to issue its financial statements within 6 months of the reporting date. However, financial statements of the National Youth Corps for the year 2017 had been issued on 26 November 2018.

(b) Sri Lanka Public Sector Accounting Standard 07

(i) In terms of paragraph 24 of the standard, an item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost. However, a stock of computer equipment and furniture and fittings had been brought to accounts by deducting demurrage charges of Rs.358,906.

(ii) In terms of paragraph 69 of the standard, depreciation of an asset begins when it is available for use. On the contrary, assets valued at Rs.74,424,177 purchased during the last quarter of the year under review, had been depreciated for the entire year, irrespective of the date of purchase and as such depreciation for the year under review had been over accounted by Rs.13,902,711.

2.2.2 Accounting Policies

According to the financial statements of the Corps it was stated under accounting policies that the stock is accounted at cost or net realisable value whichever is lower. However, the value of passing out uniforms amounting to Rs.70,842,753 had been stated at cost in the financial statements under stock but it was observed that those stock of uniforms were used only for the purpose of passing out ceremony twice a year and then handed over to the stores. Accordingly, the net realisable value of this stock had not been recognised and as such it was observed that the fair value of this stock was not depicted in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The ranger's allowance of Rs.1,201,350 relating to the previous year had been brought to accounts as expenditure of the year under review whereas the ranger's allowance and meal allowance of Rs.404,100 and Rs.370,425 respectively of the year under review had not been brought to accounts.

(b) Even though, the canteen building in the Headquarters of the corps had been rented out during the period from 20 September 2017 to 17 August 2018 at a monthly rental of Rs.35,555, that rent income had not been brought to accounts but given to the welfare society of the corps.

(c) Provision for audit fees relating to the years from 2015 to 2017 had not been made.

(d) A sum of Rs.270,228 incurred for a project implemented in the previous year had been brought to accounts as expenditure of the year under review.

(e) A total sum of Rs.122,056 had been accounted under deposits in 4 instances as unidentified errors in the accounting system but such errors had not been identified and settled.

(f) A sum of Rs.53,400 had been brought to accounts twice as accrued expenses.

2.2.4 Lack of evidence for Audit

Without written evidence to ensure the expenditure incurred on goods and services obtained during the year under review and the previous years, a sum of Rs.1,672,945 had been shown as accrued expenses.

2.2.5 Unexplained differences

The following observations are made.

When compared the financial statements with schedules presented to audit a difference of Rs.5,355,053 was observed relating to two items of accounts.

Particulars	Value as per financial statements	Value as per the schedule	Difference
	Rs.	Rs.	Rs.
Meal allowance	193,325,925	188,293,768	5,032,157
Capacity Development	7,559,043	7,881,939	322,896
			5,355,053

2.3 Accounts Receivable

Electricity and water charges totalling Rs.6,755,816, comprising a sum of Rs.2,393,538 for the year under review and Rs.4,362,278 for the years 2015 and 2016 recoverable from a private entity had not been recovered even by 31 December 2017.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) Youth corps Act No.21 of 2002	
(i) Section 1	Even though, the institute is named as “Youth Corps” in terms of the Act it was stated in the financial statements as “National Youth Corps”
(ii) Section 2(4)	Three committees for the purposes of Vocational Training, Youth Development and establishment which would be necessitated for the administration of the Youth Corps Council had not been appointed.
(iii) Section 19	Even though, the ages of trainees to be enrolled should be not less than 18 years and not more than 28 years of age, persons less the age of 18 years had been enrolled.

(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
Financial Regulation 571	Even though deposits lapsed over 2 years should be credited to revenue, action in terms of financial regulation had not been taken in respect of deposits totalling Rs.215,066, brought forward since 2013.
(c) Public Enterprises Circular No.PED/12 of 02 June 2003.	
(i) Section 6.5.1	Draft annual report had not been presented along with the financial statements.
(ii) Section 9.5.1	Even though, it was stated that a budget should be prepared for staff training and funds therefor should be provided, the corps had not prepared a budget for training purposes.

3. Financial Review

3.1 Financial Results

According to the financial statements presented the financial result of the corps for the year ended 31 December 2017 had been a deficit of Rs.68,469,997 as against the surplus of Rs.44,601,282 for the preceding year thus indicating a deterioration of Rs.113,071,279 in the financial result as compared with the preceding year. Even though, the revenue of the year under review had increased by Rs.187,681,721 as compared with that of the preceding year, the increase of expenditure by Rs.300,753,000 had mainly attributed to the deterioration of financial result.

In the analysis of financial results of the year under review and the previous 2 years, a deficit of Rs.11,053,605 and a surplus of Rs.44,601,282 had existed in the years 2015 and 2016 respectively but again in the year under review a deficit of Rs.68,469,997 had existed. However, the employees remuneration and depreciation on non-current assets were readjusted to the financial result, the contribution of Rs.275,073 of the centre in the year 2015 had increased up to Rs.415,732,341 in the year 2016 but it had dropped up to Rs.409,920,173 in the year under review.

3.2 Working Capital Management

The current and quick ratios in the year were 1.57 and 1.03 respectively and it had increased to 6.58 and 5.40 respectively in the year under review. Increase of receivable advances by 152 per cent had mainly attributed to increase the current ratio and those advances had included mobilisation advances of Rs. 480,929,665 given for contracts and it represented 74 per cent of the total current assets.

4. Operating Review

4.1 Performance

4.1.1 Planning

Even though, an action plan for the year under review had been prepared by the Corps, it had not been prepared by including the information mentioned in paragraph 4 of the Public Finance Circular No.01/2014 of 17 February 2014.

4.1.2 Operations and Review

The following observations are made.

(a) According to the action plan, 23 main activities had been planned to be executed and according to the progress report, progress had been indicated relating to 27 main activities. As such, 4 activities not planned had been carried out by incurring a sum of Rs.2.24 million. Furthermore, 5 activities which had been planned and a budgetary provision of which amounted to Rs.2.28 million had been made had not been carried out. Deviating from the action plan and without making budgetary provisions, 3 activities valued at Rs.2.72 million had been carried out.

(b) In terms of Section 3 of the National Youth Corps Act No.21 of 2002, the objective of the centre is the development, training of employment and professional development. The following observations are made in the audit examination of achievement of this objective.

(i) Even though for conducting courses by the Corps in the previous year the first batch and the second batch had been entolled from January to June and June to December respectively, in the year under review the first batch and the second batch had been enrolled from January to June 2017 and September to February 2018 respectively indicating a moral improvement. However, a written approval for changing the course periods was not made available to audit.

(ii) In the year under review 13,811 students of 2 batches had been enrolled for 49 centres, out of which 4,167 students had dropped out the courses. Accordingly, number of students completed the course amounted to 9644 and it was observed that it represented only 70 per cent of the trainees.

(iii) A sum of Rs.2,829,467 had been spent for conducting NVQ test for the National Vocational Qualification Certificate. During the year under review 5,205 trainees had participated for evaluation in 34 centres from the first batch and 4,866 of them had passed the evaluation test but certificates had been awarded to only 4,604 persons. For the second batch 1818 trainees had participated for evaluation test in 33 centres under the Building Career Skills Curriculum and 1,601 of them had passed the evaluation test but only 574 persons had been awarded certificates.

(iv) Even though, the Corps had directed 5,405 students for Vocational Training during the year under review by incurring an expenditure of Rs.11,126,000, 1642 students had dropped out the training. However, it was observed in audit that the trainees who had completed training could not be identified through the existing follow up methodology.

(v) During the year under review 7,166 trainees relating to two batches had been trained in the Naula Centre which was an Activity Based Training Centre (ABT Centre) and a sum of Rs.10,791,884 had been spent thereon. Furthermore, 609 persons belonged to a an external party had been trained by incurring an expenditure of Rs.814,984 and earned an income of Rs.1,293,289. However, a written approval for giving training to private parties and to recover fees was not made available for audit.

4.2 Management Activities

The following observations are made.

(a) Even though, 10 vehicles valued at Rs.35,667,765 belonged to other institutions are being used by the Corps, action had not been taken to acquire the legal ownership of those motor vehicles.

(b) It was observed that in the value of motor vehicles stated in the statement of financial position, two motor vehicles valued at Rs.2,000,000 which had been discarded from operation since 2015 and one motor vehicle valued at Rs.1,000,000 discarded from running in the year 2017 had included but action had not been taken to dispose of them.

4.3 Under utilisation of Funds

A sum of Rs.13 million had been given in the year 2016 for the establishment of 3 Chinese Language Laboratories in Dambulla, Galle and Dikwella Youth Corps Centres under the Chinese government aids. However, without fulfilling that task, money had been retained in the account even by 31 December of the year under review.

4.4 Idle and Under Utilised Assets

The following observations are made.

(a) It was observed that relevant to the centres, 175 computers 4,150 lecture hall chairs including goods of 9 varieties of items, the total value of which amounted to Rs.50,997,436 purchased in the year 2016 had been retained in the stores being idle for more than 18 months by 30 June 2018.

(b) It was observed that 25 three wheelers totalling Rs.54,474,893 purchased in the year 2017 for new centres, 4875 lecture hall chairs including goods belonged to 9 items of varieties had remained in the Ratmalana store for more than 10 months and 475 computers and UPS s valued at Rs.49,504,500 in Kanthale Training Centre, goods relating to 20 varieties of items valued at Rs.4,569,519 had remained idle in the Yakkala main store.

4.5 Uneconomic Transactions

Even though goods had been purchased being considered as an essential and emergency purpose of commencing 12 new centres, in order to store the goods purchased it was observed in audit that stores rent of Rs.2,028,200, insurance charges of Rs.149,724 and security charges of Rs.338,817, all together an additional payment of Rs.2,516,741 had to be paid as the new centres had not been commenced.

4.6 Identified Losses

A loss of Rs.3,225,966 had incurred by auctioning a stock of fixed assets costing Rs.5,380,158 during the year under review. In order to establish the cost of fixed assets auctioned, a detailed schedule (date of purchase, cost of fixed assets disposed of etc.) was not made available for audit and only the asset items of each centre had been stated by lots.

4.7 Commencement of projects in lands/ properties without being formally acquired

The legal ownership of lands used by the Corps had not been acquired. Despite, there was no legal ownership of lands/ properties, a sum of Rs.121,269,140 had been spent for the construction of buildings during the year under review.

4.8 Personnel Administration

The following observations are made.

(a) The approved and actual cadre of the Corps as at 31 December 2017 had been 1039 and 852 respectively and 186 vacancies, comprising 118 from permanent cadre and 68 from contract employees had existed.

(b) Even though, the Chief Executive Post of the Corps according to the approved cadre is the post of “Director” which is a permanent post, it was observed that without being recruited a permanent appointment, recruitment on secondary basis had been done continuously.

(c) During the year 2017, 124 employees, including 73 of the permanent cadre had vacated their posts. It was observed in audit that existence of a high level in leaving tendency of employment as such, had badly affected to deprive of Skilled Labour to the Corps and its efficiency.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, accounts should be presented to the Auditor General within 60 days after the closure of the financial year. However, the financial statements for the year 2017 had been presented to the Auditor General on 26 November 2018.

5.2 Audit Committees

In terms of paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 the audit committee should be held at least once in 3 months but only one meeting had been held during the year under review.

5.3 Procurements and Contract Process

5.3.1 Procurements

The following observations are made.

(a) The procurement time table had not been prepared in terms of guideline 4.2.2 of the procurement guidelines and paragraph 4.2.3 of the procurement manual.

(b) It was observed that bids had been called for the supply of 62 items under 12 groups required for the new training centre through a newspaper advertisement on 15 September 2017. According to a test check in the procurement of the supply of computers, office equipment and kitchen equipment valued at Rs.79,031,360 instance of non-compliances with procurement guidelines and procurement manual are as follows.

(i) In applying for the appointment of procurement committees and technical evaluation committees, relevant specimen forms had not been used in terms of paragraph 2.7.5 of the procurement manual and the approval for those committees of the Secretary to the Ministry had not been obtained.

(ii) In terms of guideline 2.6.1(ii) of the procurement guidelines, specifications should be reviewed and approved by the technical evaluation committees which is the responsibility and the functions of that committees in order to ensure the specifications are naturally generated and to promote competiveness at a same level, but action had not been taken accordingly.

(iii) Even though, at least 21 days should be given to call for national competitive bids in terms of procurement guideline 6.2.2, only 15 days had been given according to the newspaper advertisement.

(c) In terms of guideline 5.4.12 of the procurement guideline, after the payment is made, the particulars of such payment should be sent to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before 15 day of the ensuing month to cover the Value Added Tax. Action had not been taken accordingly.

5.3.2 Delayed Projects

The following observations are made.

(a) Contracts valued at Rs.3,600,864,172 relating to 126 constructions had been awarded to 16 private entities and the National Machineries Institute by 31 December 2017. Of them, 72 constructions contracts valued at Rs.1,241,581,512, comprising 41 and 31 contracts in the years 2016 and 2017 respectively had been awarded to the National Machineries Institute, even though the contract period of those contracts was 91 days, it had been extended in 10 occations and it was observed in audit that those constructions had not been completed and handed over to the Corps even by 10 October 2018, the date of audit.

(b) Construction works of 12 awarded as at 31 December 2017 had not been commenced. Advances totalling Rs.104,899,479 had been paid by the Corps to 10 of those contracts.

5.4 Budgetary Control

Variations ranging from 78 to 100 per cent in 11 expenditure objects between the estimates and actual amounts in the year under review were observed and as such it was observed that the budget had not been made use of as an instrument of management control.

5.5 Tabling the annual reports

Action had not been taken to table the annual reports for the years 2015 and 2016 even up to the date of this report, in terms of paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

6. Systems and Controls

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

	Areas of Systems and Controls	Observations
(a)	Accounting	Non-use of a proper accounting system
(b)	Inventory Control	Non-maintenance of Inventory registers properly.
(c)	Budgetary Control	Existence of variances between the estimated expenditure and actual expenditure in expenditure objects.
(d)	Maintenance of Information Systems	Updated information could not be easily and quickly ascertained through the information system introduced.
(e)	Procurements	Improper maintenance of procurement files and weaknesses in the procurement process.
(f)	Stores Control	Non-introduction of sufficient and proper stores control systems.