

National Youth Services Council – 2018

1.1 Qualified Opinion

The audit of the financial statements of the of National Youth Services Council for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Council as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Council.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

The Council is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under the following headings.

1.5.2 Non-compliances with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Due to failure in annually reviewing the useful life of non-current assets in terms of Section 65 of the Sri Lanka Public Sector Accounting Standard, No. 07, a number of 477 buildings, 28,555 items of furniture, and 1,797 items of machinery had still been in use despite being fully depreciated by the end of the current year. Action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard, No.03. Furthermore, the gross carrying amount thereof had not been disclosed in the financial statements.	Action will be taken in due course to revalue the assets with zero value in terms of Sri Lanka Accounting Standard, No. 03, thereby revealing the gross carrying amount in the accounts.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.

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| (b) | According to Section 69 of the Sri Lanka Public Sector Accounting Standard, No. 07, depreciation of an asset begins once it is made available for use. However, the assets costing Rs. 125,492,259 purchased in the year under review, had not been depreciated for the year under review. Furthermore, depreciations totaling Rs. 29,575,000 relating to the year under review in regard to 57 motor vehicles revalued in December 2017, had not been brought to accounts. | All the assets will be accurately depreciated in the year 2019 in accordance with the Accounting Standards, and adjustment on depreciation relating to the revalued vehicles will be rectified in the year 2019. | Action should be taken in accordance with the Accounting Standards. |
| (c) | The livestock of the farms owned by the Council worth Rs. 2,986,920 from which an income of Rs. 4,644,701 had been earned in the year under review without being relevant to the items identified as stocks in terms of Section 11 of the Sri Lanka Public Sector Accounting Standard, No. 09, had inappropriately been identified as stocks and shown under current assets. | Action will be taken for the stock of livestock mentioned in the audit observation, to be brought into accounts as non-current assets. | The assets and the stock should be separately identified and brought to accounts in terms of Sri Lanka Public Sector Accounting Standards. |
| (d) | In terms of Section 15 of the Sri Lanka Public Sector Accounting Standard, No. 09 the stocks should be valued to the cost or the net realization value, whichever is less. Contrary to that, the stocks policy had been identified to value on the cost of the stock. | Action will be take in due course to value the stocks in terms of Section 15 of the Sri Lanka Accounting Standard, No. 09 | The Accounting Standards should be adhered to. |

1.5.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
Capital grants amounting to Rs. 5,298,332,712 had been shown as Government grants and grants received from foreign countries as equities in the statement of financial position. However, an accounting	As for the assets shown in the statement of financial position as Government grants and grants received from foreign countries, action will be taken to maintain the policy of adjusting the	Action should be taken to identify the Government grants as deferred income on systematic basis.

policy had not been identified in order to identify them as income on a systematic basis.

relevant cumulative value of depreciation under this equity when eliminating assets in accordance with physical survey.

1.5.4 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken even up to the end of the year under review to assess and account the values of lands taken over during the period of 1984 – 2014 for maintaining 11 training centers, 05 lands legally owned by the Council, and 06 vehicles belonging to the Council.	Letters have been sent to the Lands Division informing to assess the value of those lands and report to the Accounts Division. corrections will be made on vehicles in due course.	Action should be taken to assess and account the values of assets legally owned by the Council, or being used by the Council.
(b) A number of 289 mini Laptops worth Rs. 14,016,500 distributed among Members of Youth Parliament on the basis of non-recovery following a decision taken by the Council in the year 2016, had not been included in the value of computers and electric appliances shown in the statement of financial position as at 31 December 2018. As such, the assets had been overstated by that amount whilst the annual depreciation and the balance in depreciation allocation account had been overstated by sums of Rs. 2,803,300 and Rs. 8,409,900 respectively.	Corrective measures will be taken in the year 2019.	Action should be taken to accurately identify and account the assets of the Council.
(c) The sum of Rs. 4,075,000 recoverable for the period from 06 November 2012 up to 31 December 2018 with respect to 02 vehicles given on lease by the Council to the Sri Lanka Youth Services (Pvt) Limited, had not been brought to accounts.	Even though letters have been sent to the company requesting to pay the rentals on the relevant vehicles, no replies have been sent, nor have the rentals been paid.	Action should be taken either to recover the monies, or retrieve the vehicles.

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| <p>(d) Expenses of the preceding year totaling Rs. 32,065,606 had been brought to accounts as the expenses of the year under review whereas the accrual expenses amounting to Rs. 13,988,144 relating to the year under review had not been accounted.</p> | <p>Although provision was made for the year, expenses were made in accordance with the monies received. The bills in hand were settled by utilizing the provision of the year 2018 in terms of Circular, No. BD/CPB/4/1/9/-2018 of the Ministry of Finance and Media, and Section 04 of the Circular, No. 3/2017 of the Secretary to the Treasury, dated 2017.12.27. As such, the values of vouchers relating to the year 2017 had not been brought to accounts, and the payments relating to the year 2018 had been settled in the year 2019.</p> | <p>When preparing the financial statements, the expenses should be accounted on accrual basis.</p> |
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1.5.5 Consolidation

Audit Observation	Comments of the Management	Recommendation
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<p>The Sri Lanka Youth Services (Pvt) Limited had been established in the year 1981 with 98 per cent of its shares being owned by the National Youth Services Council, but the financial statements of the company had not been consolidated with that of the Council, thus failing to prepare consolidated financial statements.</p>	<p>Action will be taken to present consolidated financial statements in the year 2019.</p>	<p>The consolidated financial statements should be presented by consolidating the financial information of the Council with that of the Sri Lanka Youth Services (Pvt) Limited.</p>

1.6 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
As the verdicts returned by the court had not been heeded, the Council could not recover the sum totaling Rs. 600,000 receivable from 2 persons as at 31 December 2018.	The law investigation division has been informed that the monies receivable monthly from the relevant officers, were not being recovered.	Follow up action should be taken on the measures taken by the law investigation division, thus the monies receivable should be recovered.

2. Financial Review

Financial Results

The operating result of the year under review had been a deficit of Rs. 109,356,000 as compared with the corresponding deficit of Rs. 292,520,000 for the preceding year, thus observing an increase of Rs. 183,164,000 in the financial result. This increase had mainly been attributed by the decrease in youth development expenses by a sum of Rs. 143,492,000 and the increase in internal earnings by a sum of Rs. 30,302,000.

3. Operating Review

3.1 Uneconomic Transactions

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) A sum totaling Rs. 1,029,518 had been incurred on air tickets and casual expenses for a Directress of the Council and 2 youth agents in regard to their participation in a youth conference held in United States of America on 30 & 31 January, 2018. However, due to failure in obtaining approval for Visa within the specified time, they had left the country on the date of conclusion of the said conference. As such, the expense incurred had become uneconomic.	Visas had been received on 2018.01.30 and the programme had commenced on 2018.01.30 with conclusion on 2018.01.31. However, due to reasons such as, the follow up action thereof had continued on 2018.02.01, and the Sri Lankan youth would be deprived of such a chance in the future if no one participated therein in representation of National Youth Services Council being an entity involved in youth affairs in Sri Lanka by unheeding the special invitation of the US, the said trio had been dispatched to take part in the programme despite being delayed.	The provisions and facilities should be made available to ensure participation in the conference from the date of commencement itself whilst drawing attention on the utilization of public funds with economy.

- (b) Under the process of adding new countries to the international youth exchange programmes, 03 officers of the Council had toured in China spending a sum of Rs. 1,738,966 during a period of 05 days from 09 July 2018 to 14 July 2018 to hold a discussion with a youth organization in China. Nevertheless, the Council failed to give benefits even up to 30 July 2019 as a result of those discussions
- Matters of observation were identified from among the opinions and proposals presented in the discussions. As this relates to the participation in youth programmes held among institutions, a signed agreement exists as to how expenses would be incurred when interacting with those institutions after the tour.
- Action should be taken to improve the performance of the Council by means of those discussions. Funds of the Government should be utilized in a productive manner.

3.2 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Although the Treasury had approved a provision of Rs. 5,000,000 for the international Youth Day celebration festival in the year 2018, expenses amounting to Rs. 9,602,715 had been incurred in excess of that limit. Provision made on two other programmes had been made use of thereon.	Expenses could be minimized by implementing the “No Drugs Api Youth” programme included in the annual plan for the year 2018 and the “Youth With Talent 2018” programme in consolidation with international youth day programme. Additional funds had been obtained through the “No Drugs Api Youth” programme, and the Youth Parliament programme.	Attention should be drawn to manage expenses within the limits of provision approved for the programmes.
(b) According to the project report for the “Yovunpura” programme of the year 2018, the estimated cost amounted to Rs. 150 million, but a sum of Rs. 176,578,040 had been spent thereon, thus exceeding the approved limit by a sum of Rs. 26,568,040.	It was planned to conduct the “Yovunpura” programme – 2018 incurring a sum of Rs. 150 million with the participation of 7000 youth. However, an additional amount had to be incurred on activities such as, obtaining 250 additional tents from external institutions, paying sums in millions to Government institutions like the Ceylon Electricity Board and the Water Supply and Drainage Board on sanitary and water facilities, improvement of infrastructure, and awarding souvenirs such as, T-shirts, caps & mugs to the participants.	The approved expenses estimated should be incurred.

3.3 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>The National Youth Services Act, No. 69 of 1979 states the objectives such as, establishment of youth associations, assisting the associations already established in view of the welfare of youth, establishment and registration of youth associations, providing such associations with instructions and technical knowledge, and providing financial assistance. Contrary to that, sums of Rs. 3,050,000 and Rs. 3,219,500 had been given to the Sri Lanka Youth Society Conference for the execution of 9 items of work relating to the programme for celebrating international Youth Day of the year under review, and providing refreshments for “Yovunpura” programme respectively.</p> <p>Furthermore, those works had been assigned to the Sri Lanka Youth Society Conference without following the procurement process. The relevant files had not been made available to the Audit even up to 31 December 2018 for examining the expenses in that connection.</p>	<p>Grants amounting to Rs. 3,050,000 had been provided for the Sri Lanka Youth Society Conference upon approval of the Board of Directors of the Council, and 9 items of work had been executed with those monies.</p> <p>The Sri Lanka Youth Society Conference requests to execute the tasks of the “Yovunpura” programme by themselves. As the said tasks should be executed responsibly and properly, the Sri Lanka Youth Society Conference, following approval of the Board of Directors of the Council, was entrusted thereto so as to gain experience in that connection.</p> <p>The Sri Lanka Youth Society Conference, has been instructed to promptly furnish the relevant files.</p>	<p>The Act of the Council and Government Procurement Guidelines, should be adhered to.</p>

3.4 Delays in Projects and Capital Works

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) Due to low progress relating to renovation and modification of the Love Lane training center in Trincomalee, and the Swiss training center in Dambulla with agreed values amounting to Rs. 73,007,519 and Rs. 68,903,239 respectively, the contract agreements had been</p>	<p>All the plans and engineering estimates required for completing the rest of the works of the 2 projects have been provided by the consultancy firm. Due to inadequacy of provision granted for the year 2019 under the Skills Sector Development Project, additional provision has been requested. As such, it was stated</p>	<p>The projects should be commenced by utilizing the provision received whilst taking action to conduct training programs as scheduled at the training centers by</p>

- cancelled in the year 2018. However, action had not been taken up to 31 July 2019 in terms of Government Procurement Guidelines for blacklisting the contractor. No other contractor had been awarded a contract up to 30 June 2019 for completing the rest of the works.
- (b) Stages I and II of the works for modernization and new constructions relating to the Bellwood Aesthetic Residence should have been completed by 02 November 2018 and 31 March 2019 respectively. However, the progress thereof remained as low as 60 per cent and 8 per cent respectively as at 30 June 2019.
- that the two projects would be implemented by taking into account the provision received by the National Youth Services Council as well. The secretary to the Line Ministry will be informed in due course with regard to blacklisting the contractor.
- The contract for Bellwood Stage I has not been completed, and the works continue at a slower pace. Penalties for delay totaling Rs. 1,395,210 have been charged on the bills furnished. Due to lack of satisfactory progress, action will be taken in due course in terms of conditions of the contract to prohibit works at the site. Contract for Stage II proceeds at a slower pace, and the contractor has been informed thereon.
- avoiding delays.
- Action should be taken to get the relevant works done in terms of the agreements.

3.5 Deficiencies in Contract Administration

Audit Observation

In terms of Circular, No. 02/2016 of the National Youth Services Council, dated 11 February 2016, contracts with the value ranging from Rs. 100 million to Rs. 200 million should be entered into under approval of the Procurement Committee of the Ministry. Nevertheless, the work of modernization and new constructions relating to the Bellwood Aesthetic Residence had been divided into two segments as Stage I and Stage II with values amounting to Rs. 99.66 million and Rs. 97.79 million respectively without an acceptable reason. Accordingly, the said contract had been awarded to the same contractor in 2 instances in the year 2017 under approval of the Procurement Committee of the

Comments of the Management

A limited amount of provision had been allocated for the constructions of this project in the Action Plan of the year 2017. The contract was awarded in July 2017 as Stage I in line with the amount of provision made.

As 07 projects mentioned in the Action Plan, had not been implemented by the end of the year 2017, the Action Plan was revised based on "expediting the Government procurements" stated in Government Procurement Guidelines with the objective of maximum utilization of provision received, thus awarding the Bellwood Stage II contract on 30 December 2017.

Recommendation

Provisions of the Government Procurement Guidelines should be adhered to. Action should be taken with proper supervision to ensure that the contracts are completed on time.

Department. Furthermore, before commencing constructions of the new building under Stage II, demolition of the old building should have been completed under Stage I. Nevertheless, contract for Stage II had been awarded and a payment of Rs. 22,491,900 had been paid prior to 10 months of the completion of contract period of Stage I without meeting the preliminary requirements for the commencement of the works.

The contract under Stage I relating to constructions and modernization of Bellwood Aesthetic Residence, should have been commenced on 2017.08.03 and completed by 2018.11.02. The contract for Stage II should have been commenced on 2018.01.05 and completed by 2019.04.25. As such, demolition of the building had been commenced in September 2017 under Stage I. the preliminary works of Stage II had been commenced in January 2018.

3.6 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
Action should be taken to recruit permanent officers in accordance with the Scheme of Recruitment approved in terms of Section 3.3 of Chapter IV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. However, 14 Assistant Youth Service Officers and a Management Assistant (Non technical) had been recruited on casual basis for a period ranging from 09 months to 04 years. Eleven of them had not met even the basic qualifications mentioned in the Scheme of Recruitment.	Recruitments had been made in the year 2014 based on requirements of the Council. Even though instructions had been sought from the Ministry with respect to unqualified officers, no instructions have been received. As such, further action will be taken once the instructions are received.	Action should be taken to recruit officers in accordance with qualifications stated in the Scheme of Recruitment.

3.7 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Every public institution should comply with “2030 Agenda” on sustainable development adopted by the United Nations. The National Youth Services Council had not taken measures to identify the Sustainable Development Goals and targets under their scope.	No comments.	Action should be taken in compliance with Circular, No. NP/SP/SDG/17 of the Ministry of National Policies and Economic Affairs, dated 14 August 2017.