

National Youth Corps - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Youth Corps for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the National Youth Corps as at 31 December 2020, 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 on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 corps' 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 intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

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

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the corps 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 corps.

1.4 Audit Scope

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 scepticism 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 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 corps' 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 fund 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 fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the corps has complied with applicable written law, or other general or special directions issued by the governing body of the corps ;
- Whether the corps has performed according to its powers, functions and duties,
- Whether the resources of the corps 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation -----	Management Comment -----	Recommendation -----
(a) The estimated error on the effective life of the fixed assets owned by the corps which were fully depreciated but still in use and cost of Rs. 432,263,958 had not been adjusted in the accounts in accordance with Sri Lanka Public Sector Accounting Standard 03. Further, these assets, which were fully depreciated, had not been disclosed in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard No. 07.	As it is not possible to value all the relevant assets in a short period of time, only musical instruments and sport goods have been adjusted in the accounts statement for the year 2021. The remaining assets will be rectified in next year.	Should be prepared financial statements correctly and disclosed properly in accordance with Sri Lanka Public Sector Accounting Standards.
(b) When an entity presents a further sub-classifications of line items, they should be classified in a manner appropriate to the entity's operations and presented on the face of the statement of financial position or in the notes in accordance with section 93 of Sri	The detailed notes of the work in progress will be presented under the notes of the financial statements of the year 2021.	-Do-

Lanka Public Sector Accounting Standard No. 01, but a detailed note for work in progress of Rs. 2,236,026,793 indicated in the statement of financial position of the corps was not presented in the financial statements.

- | | | | |
|-----|--|--|--|
| (c) | Although a policy should be prepared for post gratuity allocation based on future employee salary increase, discount rate, employee turnover and other quantitative assumptions according to Sri Lanka Public Sector Accounting Standard 19, Rs. 37,083,980 had been reserved for the gratuity for 404 employees at the end of the year under review by the National Youth Corps, but no post gratuity reservation policy had been prepared. | Acknowledging that no post-gratuity reservation policy has been prepared to calculate the gratuity payments of the National Youth Corps and necessary arrangements have been made to prepare those policies in future. | Should be act in accordance with Sri Lanka Public Sector Accounting Standards. |
| (d) | Although notes containing a summary of significant accounting policies and other explanatory notes should be included in the financial statements in accordance with paragraph 21 (e) of Sri Lanka Public Sector Accounting Standard No. 01, the corps had not disclosed the accounting policies relating to income, expenditure, government grant receiving, short-term investments, payable and receivable balances in the financial statements. | This accounting policy has been disclosed in the financial statements of the year 2021. | Should be disclosed properly while preparing the financial statements in accordance with Sri Lanka Public Sector Accounting Standards. |

1.5.2 Accounting Deficiencies

----- Audit Observation -----	Management Comment -----	Recommendation -----
(a) 15 Training centers costing Rs.	The corps maintained a	Financial statements

1,077,517,669, which had been completed during the period from 2016 to 2020, were indicated as work in progress on 31 December 2020 in the financial statements, instead of being accounted under property, plant and equipment. Also, the annual depreciation expense of Rs. 34,143,782 for 09 training centers costing Rs. 682,875,647 which was used during the year under review was not indicated in the financial statements.

fixed assets register with the help of Excel software. Due to the purchase of a large amount of fixed assets under the pilot project during the years 2016-2018, many practical problems arose while updating that document. Accordingly, the fixed assets register will be updated for the year 2021 with the revaluation of the assets.

should be prepared in correctly.

(b) Due to that the gratuity amount of Rs. 3,604,183 that should have been paid for 37 staff members who left the service in the year 2019 was indicated as an expense in the year 2020 instead of being adjusted to the accumulated deficit as an adjustment of the previous year, the surplus of the year 2020 was indicated by more than that figure. Also, due to that payments were made during the year under review, but 10 expense items amounting to Rs. 2,187,544 related to the year 2021 were indicated as expenses of the year under review in the financial statements, the expenditure and surplus of the year were respectively over and understated by that amount in the financial statements.

In the preparation of the statement of gratuity allocation of the year 2021, the amount not allocated for 37 employees due to an omission in the calculation of the gratuity allocation valance of the year and the error of overstating the gratuity allocation balance and gratuity expenditure of the year 2020 was corrected.

Financial statements should be prepared in correctly.

1.6 Receivable and Payable Accounts

1.6.1 Receivable

Audit Observation	Management Comment	Recommendation
-----	-----	-----
Rs. 13,144,155 to be charged for	Payments have been made	Arrangements should

electricity, water consumption and assessment for the year 2015 to 2020 by the small business development division, which is and institute outside the corps as stated in other receivables in the financial statements, has not been recovered by the audited date of 25 February 2022.

for the expenses related to the year 2021 from that institute. It has also been informed that the institution does not have the provision to pay the expenses for the previous year and that matter has been submitted to the National Youth Corps Council and necessary steps have been taken to act accordingly as per the instructions given by the Audit and Management Committee.

be made for recover the receivables immediately to the corps.

1.6.2 Payable

Audit Observation

19 non-settled payable balances of total amounting to Rs. 59,901,715 relating to the period from the year 2013 to 2019 have not been settled or re-adjusted in the financial statements if there is no further liability.

Management Comment

All obligations related to the amount of Rs. 59,901,715, which are the old balances to be paid from the year 2013 to the year 2019 indicated by the query, have now been settled and correctly settled in the financial statements of the year 2021.

Recommendation

Action should be taken to settle the payables without delay.

1.6.3 Advances

Audit Observation

(a) The total construction advances of Rs. 73,300,221 given for the construction of 03 training centers whose construction work has been completed by 31 December 2020, 04 training centers whose construction contracts have been canceled and one training center building whose construction work has been stopped due to

Management Comment

After coming to a final conclusion regarding the completion of the remaining work of the previous building in Gomarankadawala, the remaining advance money will be collected immediately.

Recommendation

Arrangements should be made to settle the construction advances without delay.

deficiencies in the basic quantities as at 31 December 2020 had not yet been settled.

- (b) According to the cabinet decision dated 09 August 2016, the National Equipment and Machinery Organization (NEMO) was awarded the contract for the construction of 10 new centers and 21 building units of the existing centers of the National Youth Corps outside the open tender process. It was decided to cancel these construction contracts due to the failure of related construction progress as per the cabinet decision dated 30 January 2020. Even though, out of the total advance amount of Rs. 109,234,674 given by the National Youth Corps to NEMO institute in the years 2016 and 2017, Rs. 43,856,413 has not been settled even after two years have passed since the cancellation of this construction work.
- The amount of Rs. 65,378,261.28 from the money retained by the National Machinery institute and the bills to be paid yet has been settled with the Rs. 109,234,674.36 and the remaining advance mount of Rs. 43,856,413 to be settled will be settled expeditiously on final accounts work of the National Machinery institute.
- The administration of the contract should be carried out in a formal manner and arrangements should be made to recover the charges without delay.

1.7 Non-compliance with Laws, Rules, Regulations and management decisions etc.

Reference to the Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. PED/12 dated 02 June 2003 (i) Paragraph 5.1	A corporate plan should have been prepared, but the corps had not prepared a corporate plan.	I acknowledge that a corporate plan covering the year 2020 has not been prepared and submitted to the executive committee and approved. Accordingly, a preparation of a formal corporate plan	Corporate plan of the corps should be prepared without delay and updated annually.

including the simultaneously with the implementation programme of the National Youth Corps Authority Act 2023-2027 has been completed.

(ii) Paragraph 6.5.1

Although the financial statements should be submitted to the Auditor General within 02 months after the end of the accounting year, the corps had submitted the financial statements 09 months late in the due date.

I acknowledge that the preparation and finalization of the annual accounts for the year 2020 has been delayed until June due to natural conditions such as the Covid-19 situations and the quarantine curfew imposed in the country. I would like to clarify that the annual accounts report 2020 was submitted to the Auditor General on 25/11/2021 after approval by the council on 27/10/2021.

Financial statements should be prepared promptly and submitted for audit as per statutory requirements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 20,250,224 and the againsting deficit in the preceding year amounted to Rs. 65,630,802. Therefore an improvement amounting to Rs. 85,881,026 of the financial result was observed. The main reason for the deterioration was the decreasing of youth development expenses by Rs. 102,514,194.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
07 Vehicles worth Rs. 29,050,000, which are used in the head office of the National Youth Corps, but the registration rights owned by the other ministries and institutions, have not yet been taken over to the name of the corps and the number of lands where training centers have been established by the corps is 64 as at 31 December 2020 and among those lands, only 19 lands had been handed over to the corps and the acquisition of the remaining 45 lands had not been completed yet.	LK 6091 lorry, PD 9016, PE 0914 and GC 4505 numbered vehicles used by the Youth Corps head office have been given the necessary approval to transfer the registration rights to the Youth Corps and further work is being done accordingly.	Assets management should be done efficiently to achieve the objectives of the corps.

3.2 Human Resource Management

Audit Observation	Management Comment	Recommendation
05 Posts were vacant out of 18 senior level approved posts in the corps. Also, there were 122 and 28 vacancies for the posts of Development Assistant and Management Assistant among the approved staff respectively. There were 297 approved posts on contract basis out of which there were 57 vacancies belonging to the posts of Center Manager, Assistant Center Manager, assistant Director and Drill Instructor.	As Youth Corps staff are not entitled to the privileges and facilities entitled by employees of a government, public corporation, board or statutory institute, Youth Corps employees who have the opportunity to a position in such an institution are constantly have to left from the service of the Youth Corps. This vacancy was seen as a significant number of instructors in the Youth Corps left the service as graduate appointments were made in the year 2020 as well.	Vacant posts should be filled up promptly and managed human resources of the corps efficiently.