

## **National Youth Corps - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Youth Corps for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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**

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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**

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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.

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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**

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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.
- 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

| Non-compliance with reference to relevant standard   | Comment of the Management  | Recommendation   |
|--|--|--|
| <p>In accordance with the Paragraph 65 of Sri Lanka Public Sector Accounting Standard No. 07, the residual value and useful life of an asset should be reviewed at least at the end of each annual reporting period. However as at 31 December 2021, asset valued at Rs. 410.2 million were fully depreciated and in use, however the estimate of the useful life of these assets had not been re-valued and adjustments made in the accounts.</p> | <p>As these assets are fully depreciated, the action will be taken to reassess and prepare the accounts for the year 2022.</p> | <p>The financial statements should be prepared accurately in accordance with Sri Lanka Public Sector Accounting Standards.</p> |

### 1.5.2 Accounting Deficiencies

| Audit Observation   | Comment of the Management  | Recommendation   |
|---|--|--|
| <p>(a) During the period from 2018 to 2021, the construction work of 8 training centres has been completed at a cost of Rs. 744.5 million, which is shown in the financial statements</p> | <p>Arrangements have been made to capitalize and present in the financial statements of the year 2022.</p> | <p>Financial statements should be prepared accurately.</p> |

as work in progress as at 31 December 2021 instead of being recorded under property, plant and equipment.

- (b) During the period from 2016 to 2021, the construction work of 31 training centres had been completed and Rs. 29 million had been spent for improvements those building and Rs. 243 million spent for the construction of 18 building units in 11 training centres was shown in the financial statements as work in progress without capitalizing.
- The action will be taken to correct it in the financial statements of the year 2022.
- The financial statements should be prepared accurately.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivable Accounts

| Audit<br>Observation  | Comment of the<br>Management   | Recommendation  |
|---|--|---|
| In relation to the consumption of electricity and water used by the Small Business Development Division, which was an organization outside the Corps, from 2015 to 2021, Rs. 14 million as stated in other receivables in the financial statements, and over payment of Rs. 2 million for the construction of the Wennappuwa training centre to the relevant construction company had not been recovered as at 15 September 2022. | For the period from 2015 to 2020, the amount of Rs.13,144,155 to be recovered from the Small Business Development Division has been approved by the Youth Corps Council to be deducted from the annual accounts and the relevant adjustments will be making in the accounts of the year 2022. Arrangements are being made to recover the excess amount paid to the construction company for the construction of Wennappuwa Centre. | Arrangements should be made to collect the invoices due to the Corps without delay. |

### 1.6.2. Payable Accounts

| Audit<br>Observation  | Comment of the<br>Management  | Recommendation  |
|---|---|---|
| The payable for external training mentioned under other payable for more than one year amounting to Rs. 1 | A deduction of Rs.1 million payable for external training has been made in the books of | Steps should be taken to settle the dues without delay. |

million and accrued expenses of Rs. 1.4 million as at 31 December 2021 for more than three years, shown in the financial statements and the action had not been taken to settle them at 20 September 2022.

2022 and the accrued expenses amounting to Rs.1.4 million will be settled in the future.

### 1.6.3 Advances

| -----<br><b>Audit<br/>Observation</b><br>-----  | -----<br><b>Comment of the<br/>Management</b><br>-----  | -----<br><b>Recommendation</b><br>-----   |
|---|---|---|
| <p>(a) As at 31 December 2021, a sum of Rs. 62.6 million construction advances had been given for 04 training centres of which construction contracts were cancelled and the construction of the pre building of the Gomarankadawala Training Centre, whose construction work has been stopped due to deficiencies in the Bill of quantities, had not been settled up to now.</p>   | <p>Arrangements will be made to settle the construction advances given for the construction of training centres and pre-buildings where these construction contracts have been cancelled.</p>           | <p>Necessary steps should be taken to clear the construction advances without delay and write-off of the account balances should be done under proper procedures.</p> |
| <p>(b) According to the Cabinet decision dated 09 August 2016, the contract for the construction of 10 new centres and 21 building units of the existing centres of the National Youth Corps was awarded to the National Equipment and Machinery Organization outside of the open tender procedure. Due to the failure of the construction progress, it was decided to cancel these construction contracts as per the Cabinet decision dated 30 January 2020. Even though, the National Youth Corps provided Rs. 109.2 million of the total advance amount of Rs. 37.6 million have not been settled even after two years have passed since the cancellation of these construction works.</p> | <p>The advance amount of Rs.37,615,680 to be further settled from the advances given to the National Equipment and Machinery Organization will be settled during the settlement of the final bills.</p> | <p>The administration of the contract should be carried out in a formal manner and arrangements should be made to recover the advance amount due without delay.</p>   |

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

| Reference to the Laws, Rules and Regulations                      | Non-compliance  | Comment of the Management  | Recommendation  |
|---|---|--|---|
| (a) The Public Enterprises Circular No. PED/12 dated June 2, 2003 | As per the circular instructions the cooperate plan had not been prepared for the Corps.  | Would like to mention that while preparing the draft of the organizational plan of the National Youth Corps for 2023-2027, it  | A Cooperate plan of the Crop should be prepared.  |
| (i) Paragraph 5.1   | The Financial statements should be submitted to the Auditor General within 02 months after the end of the accounting year; however the financial statements were submitted after 09 months late.  | has been referred to an expert consultant. Arrangements will be made to submit the annual financial statements within the specified period when the accounts for the year 2022 are prepared. | Financial statements should be prepared promptly and submitted for audit as per statutory requirements. |
| (ii) Paragraph 6.5.1  | The fixed assets register for property plant and equipment valued at Rs. 2,378 million as at 31 December 2021 had not maintained by the Corps.  | After the audit of fixed assets in the year 2022, the action will be taken to prepare and update fixed assets register.  | A up dated fixed asset register should be prepared and maintained.                                      |
| (b) Public Accounts Circular No. 842 dated 19 December 1978       | 3 committees should be appointed for professional training, youth development and installation as may be necessary for the administration of the affairs of the council and the council may delegate its powers to those committees, however in the year 2002 when the National Youth Corps started it had not been done like that since. | In the future, arrangements will be made to appoint committees as per the approval of the National Youth Corps Council.  | Committees should be appointed for the affairs of the council according to the Youth Corps Act          |
| (c) The Section (4) of the Youth Corps Act No. 21 of 2022         |   |  |   |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 17 million and comparing the deficit in the preceding year amounted to Rs. 28.7 million. Therefore a deterioration amounting to Rs. 11.7 million of the financial result was observed. The main reason for the deterioration was the decrease of the annual income by Rs. 37 million.

## 3. Operational Review

### 3.1 Management Inefficiencies

| <b>Audit Observation</b>   | <b>Comment of the Management</b>   | <b>Recommendation</b>   |
|--|--|---|
| (a) The 8 vehicles used by the head office of the National Youth Corps which is owned by other the ministries and institutions with a value of Rs. 31.5 million Have not been taken over in the name of the Corps so far.  | The related activities are being done to obtain the registration rights of the vehicles used by the National Youth Corps and although there is no rapid progress, further actions are being taken according to the respective requirements.  | Asset management should be done efficiently to achieve the division's objectives. |
| (b) Out of 62 lands where training centres have been established as at 31 December 2021, and which can be transferred to the Crop, only 19 lands have been acquired to the Crop and the acquisition of the remaining 43 lands has not been completed so far.                     | The transfer of 43 lands to be handed over to the Crop is currently being done. Out of these 43 lands, 17 lands are in the final stage of the related acquisition activities.  | Asset management should be done efficiently to achieve the Crop's objectives.     |
| (c) Work commenced in the year 2017 including cancelled construction contracts of 02 training centres of Rs. 20 million by 31 December 2021 and Gomarankadawala Pre building Rs. 3.7 million, the remaining construction work was not scheduled to resume until 31 October 2022. | The Kotapola Training Centre, whose construction contracts have been cancelled, will be handed over to the Vocational Training Authority with the approval of the Ministry Secretary. At the time of cancellation of the Kalpitiya Training Centre, the amount of the performance and advance guarantees kept with the bank of the concerned contractor was recovered to the National Youth Corps. The rest of the construction works of the Pre building in Gomarankadawala will be done according to the upcoming allocations. | Arrangements should be made to resume the construction of training centres.       |

- (d) According to the Cabinet Decision dated 15 December 2011, in order to carry out the work of empowering the youth community in the country better and more effectively, the existing Youth Corps Act should be revised and a new Act should be adopted, although more than 11 years have passed, the Cabinet Decisions had not been acted upon. Currently, the necessary arrangements have been made to submit the relevant draft to the Cabinet for approval under the initiative of the current Minister of Sports and Youth Affairs. According to the Cabinet decision, a new Act should be adopted.
- (e) In accordance with the Orders 4 (ii) dated 10 October 2003 made under Section 18 of the Youth Corps Act No. 21 of 2002, the Corps will target the international labour market and prepare courses for national vocational qualification trainees in various fields jointly with government vocational training institutes however it had not been done. The Reasons for not going to vocational training after completing the basic course of the National Youth Corps include the trainees going to higher education, employment, self-employment or business activities, going abroad etc. The basic problem of not being able to refer the expected number of students for vocational training was the initial impact of the Covid-19 pandemic. Imposition of movement restrictions, transport problems and non-commencement of courses in vocational training institutes in expected periods led to non-expected turn to vocational training. Courses should be prepared so that trainees can get professional qualifications.
- (f) The Crop had directed the trainees to provide vocational training only to study 132 courses in 66 private institutions and 20 government vocational courses. For that, a maximum training fee of Rs. 100,000 for one trainee, was fixed, however the cost in between from Rs.100,000 to Rs. 800,000 courses were taken by the trainees. Also, the Crop has not prepared a system to supervise the trainees who are directed to vocational courses until they finish the course and get jobs. For the students who are studying the course, follow-up will be done until the end of the course, and a follow-up sheet is currently being prepared to collect information for the follow-up to be done regarding the employment in the future and like to inform you that special attention will be paid in this regard and such problems will not occur. A system should be developed to monitor the trainees who complete the vocational courses until they are employed.