

National Youth Services Council

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the National Youth Services Council as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1:2:1 Preparation of Consolidated Financial Statements

The consolidated financial statements by consolidations of the financial statements of the National Youth Services Company Limited, the subsidiary company of the National Youth Services Council with the financial statements of the Council had not been presented. The accounts of the company had not been prepared from the 1999 to the year 2012.

1:2:2 Failure to follow Accounting Policies

The following observations are made.

- (a) According to the depreciation policy of the Council, buildings should be depreciated at 5 per cent commencing from the year after the year of completion. But, according to the schedule of depreciation provision, Sainthamaradu Training Centre constructed in the year 2010 at a cost of Rs.27,295,360 had not been depreciated in the years 2011 and 2012. As such the depreciation for the year and the accumulated depreciation provision had been understated by Rs.1,364,768 and Rs. 2,729,536 respectively in the financial statements.

- (b) Instead of accounting for the value of work done certified as at 31 December 2012 in respect of 16 ongoing contracts, payments totaling Rs.162,300, 683 made on the contracts only had been brought to account. Similarly, the expenditure amounting to Rs.18,112,763 relating to the year 2012 paid from 01 January 2013 to 31 March 2013 had not been brought to account as expenditure of the year 2012. Nevertheless, it had been stated under the accounting policies of the financial statements that the accounting of the Council is done on the accrual basis.

1:2:3 Accounting Deficiencies

The following observations are made.

- (a) A difference of Rs.10,393,299 existed between the figures in the cash flow statement presented to audit and in the cash receipts and payments observed in audit.
- (b) According to the Farms Working Account presented for audit the income of 13 farms for the year under review amounted to Rs.5,265,552 and a sum of Rs.287,063 only had been spent in earning that income. Accordingly the profit percentage for the year amounted to an unusual 96 per cent. Similarly, no expenditure whatsoever had been incurred by 12 farms for earning an income of Rs.4,448,292 in the year 2012. Even though the Farms Development Division had spent a sum of Rs.1,320,759 on the farms that had not been shown as an expenditure in the Working Account.
- (c) Even though the ownership of 18 motor vehicles had been transferred to Council by the end of the year under review, the value of those motor vehicles had not been assessed and included in the financial statements.
- (d) Even though the audit fees for the year 2010 had been paid in the year 2012, a sum of Rs.925,000 had been shown in the financial statements for the year under review as audit fees payable for the year 2010.

1:2:4 Unreconciled Accounts

Differences totaling Rs.6,587,468 between the balances of two items of accounts shown in the financial statements for the year under review and the source documents prepared for those items of accounts.

1:2:5 Accounts Receivable and Payable

There were 382 loan balances receivable totaling Rs.19,414,138 as at the end of the year under review and those balances included debtors balances totaling Rs.914,270 existing over a period exceeding 07 years. Similarly, there were 05 loan balances payable older than 03 years amounting to Rs.2,710,037, while 144 debtors balances totaling Rs.6,873,642 had been written off in the year 2011 on a decision of the Board of Directors.

1:2:6 Lack of Evidence for Audit

The evidence indicated against the following items of account shown in the financial statements had not been furnished to audit.

Item of Account -----	Value -----	Evidence not made available -----
	Rs.	
Sundry Deposits	5,040,000	Confirmation of Balances
Contract Advances	26,660,215	Confirmation of Balances
Creditors	7,017,361	Confirmation of Balances
Other Income	2,651,895	Schedules
Expenditure on Food, Transport and Telephone of a Consultant	258,199	Bills
Payments made to the Youth Societies Conference	2,686,040	Confirmation of Expenditure
Food Accommodation and Transport Expenses of Rio – 20 Conference and Consultants Banquet	3,157,353	Bills for Payment

Foreign Travel Expenses and Allowances of a Consultant	2,117,981	Letter of Appointment, Details of Qualifications and Experience required for the post
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Transactions of 04 Sundry Projects	<u>38,417,120</u> <u>88,006,164</u>	Files on the subject
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1:2:7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) National Youth Services Act, No. 69 of 1979 Section 27	Even though the Council should use all the properties of the Council for the improvement of its objectives, action deviating from that had been taken in the following instances. (i) A land had been obtained at a cost of Rs.3,300,000 from the Urban Development Authority on a 50 year lease with effect from July 2000 for the construction of the Beruwala Youth Centre. A sum of Rs.3,398,200 had been spent for that up to 31 December 2012. Even though 13 years after obtaining the land had elapsed by April 2013, no development work had been done. (ii) Even though a sum of Rs.575,000 had been paid in the year 2007 for the preparation of preliminary plans for the construction of Youth Universities in 03 areas, the construction work had not been commenced even up to the end of the year 2013.
(b) Sections 25 and 26 of the Finance Act, No. 38 of 1971.	Even though a sum of Rs.1,671,900 had been collected by September 2009 by engaging in the collection of contributions for the construction of the Murukkandi Temple Railway Station the Council had spent a sum of Rs.732,918 in the collection process.

- The money had been deposited in a Bank Account and the balance in that as at 31 December 2012 amounted to Rs.2,631,487. The construction of the Railway Station had not been done even by April 2013.
- (c) Circular No. CSA/P1/40 dated 28 February 2007 of the Secretary to the President. The media discussion on the Tour de Sri Lanka Youth Cycle Tour had been held in a hotel at a cost of Rs.119,850.
- (d) Government Procurement Guidelines
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- (i) Guideline 1.3.2 Purchases totaling Rs.684,295 had been made in 05 instances without inviting quotations.
- (ii) Guideline 3.9.1 Even though 03 Community Societies had been selected for 08 contracts estimated at Rs.13,117,919 it had not been done by a committee with a representation of the Chairman of the Council and two representative nominated by the Divisional Secretary of the area.
- (iii) Guideline 5.4.11 A sum of Rs.12,508,737 had been paid as the Value Added Tax on 11 Construction Works to 06 contractors without obtaining the invoices for Value Added Tax.
- (iv) Guideline 5.4.12 The particulars of the Value Added Tax amounting to Rs.13,754,957 paid in the year under review to 07 contractors for 12 construction works had not been reported to the Commissioner General of Inland Revenue with copy to the Auditor General.
- (e) Public Administration Circulars
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- No. 13/2008 of 26 June 2008 Additional fuel valued at Rs.731,475 had been supplied to three officers without approval of the Secretary to the Ministry.

(f) Public Enterprises Circulars

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| (i) | paragraph 8.3.8 of the Circular No. PED/12 of 02 June 2003. | A motor vehicle costing Rs.1,315,000 had been awarded as the prize to the winner of the Tour de Sri Lanka Youth Cycle Tour without the approval of the Secretary to the Ministry. |
| (ii) | Circular No. PED/50 of 28 July 2008. | Overpayment of fuel allowance amounting to Rs.355,720 had been made to 04 officers during the years 2011 and 2012. |
| (iii) | Circular No. PED/57 of 11 February 2011. | Even though the Council had spent sums totaling Rs.25,477,253 in the year under review for publicity, the approval of the Minister of Finance for that had not been obtained. The approval of the Department of Public Enterprises had not been obtained for the budgeted publicity programme for the year under review prepared by the Council. |

2. Financial Review

2:1 Financial Results

The financial results of the operations of the Council for the year under review amounted to a deficit of Rs.73.71 million as compared with the corresponding deficit of Rs.48.75 million for the preceding year and as compared with the preceding year, the financial result for the year under review indicated a deterioration of Rs.24.96 million. Even though the income and the internal earnings had increased by Rs.122.46 million, the increase of Rs.147.42 million in the operating and youth development expenditure had been the main reason for the deterioration.

2:2 Legal Action Instituted against and by the Council

The number of cases for which the Council had been a party which had not been settled even by 02 April 2013 had been 35. The Council was the accused in 22 of those cases and was the plaintiff in 13 cases. According to the information received the monetary value of one of those cases is Rs.1,600,000.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) According to the Progress Report presented to the line Ministry and the Annual Action Plan of the Council the savings out of the provisions made for 34 projects including Rs.16.25 million relating to 11 projects planned for implementation, but totally abandoned amounted to Rs.144.79. The provisions made for 22 projects had been exceeded by a sum of Rs.102.11 million. A sum of Rs.58.78 million had been spent on 13 projects not included in the Annual Action Plan.
- (b) According to the Constitution of the Youth Societies, Youth Societies should be established in each Grama Seva Division. Nevertheless only 11,801 Youth Societies had been established in 14,013 Grama Seva Division in the 334 Divisional Secretary Divisions in the Island. As such Youth Societies had not been established in 2,212 Grama Seva Divisions.
- (c) According to a sample of 10 Training Centres examined, the annual expenditure per student of those Training Centres ranged from Rs.6,089 to Rs.51,203.
- (d) Even though a sum of Rs.11,008,223 had been spent in the year 2012 on the development of the Sri Lanka Youth Body Building and Physical Fitness Unit, the number trained in the year 2012 and up to March 2013 had been 50 and 69 respectively. Nevertheless, the objectives relating to allowing one day per week to the sports persons who hold membership of all sports conducted at the National Youth Centre to improve their physical health and physical fitness and the creation of a Sri Lanka Youth Body Building Team had not been fulfilled.

3:2 Operating Inefficiencies

The following observations are made.

- (a) The Council had made arrangements for the participation of a group of 12 persons at the United Nations Conference on Sustainable Development (Rio+20) held in

Brazil from 12 June to 23 June 2012 and a sum of Rs.11,389,540 had been spent in this connection.

The following observations are made in this connection.

- (i) A sum of Rs.2,430,583 had been paid to two foreigners for the supply of accommodation without obtaining the assistance of the Embassy for Sri Lanka.
 - (ii) Two Officers who participated in the Conference had been paid a sum of Rs.938,312 as the accommodation and subsistence and provided with accommodation by the Council and the officers had undertaken to settle the expenditure incurred on accommodation. Even though 08 months had elapsed after their return to Sri Lanka, the sum of Rs.410,808 paid by the Council had not been recovered.
 - (iii) In obtaining the approval of the Minister for the two officers and the delegates it had been stated that the expenses of two delegates will not be borne by the Government of Sri Lanka. Nevertheless, a sum of Rs.596,080 had been spent for them from the Council Fund.
- (b) According to the information made available a sum of Rs.56,232,555 had been spent on the Twenty Fourth National Youth Sports Festival held from 22 to 25 November 2012 at the Sugathadasa Indoor Stadium and the preliminary tournaments held at Divisional, District and Provincial level. The following observations are made in that connection.
- (i) A sum of Rs.1,936,000 at the rate of Rs.484,000 per day had been paid for 04 days for the electrical illumination with jet bulbs of the stadium. A sum of Rs.1,452,000 spent for 03 days on which sports had been held only during day time, had become fruitless expenditure.
 - (ii) A sum of Rs.3,943,630 had been spent for the purchase of T shirts and bottoms for the sports persons who participated in the sports festival. As the bids had been invited 05 days ahead of the date of the festival, many intuitions had rejected to supply as it was not possible to complete the supply in a short period. As such the objective of the procurement process had not been achieved in terms of Section 1.2.1(c) of the Procurement Guidelines.

- (c) A sum of Rs.2,705,000 had been paid to four youths in the year 2008 without sureties or other written undertaking for foreign travel under the Canadian Youth Exchange Programme and as such it had not been possible to recover the money.
- (d) Sri Lanka Youth Parliament of 335 members had been established with the objectives of creating understanding of the political discipline among the Youths, creating a foundation for the Building of Sri Lanka Nation, creation of an excellent Youth Leadership and the implementation of the objectives and policies of the National Youth Services Act.

The following observations are made in that connection.

- (i) Even though 08 Sessions of the Youth Parliament had been held by the end of the year under review, the attendance at all the Sessions except the first and the fifth Sessions, the participation of the members ranged between 47 per cent to 69 per cent. The participation of 88 new members at the fifth Session had been the reason for the participation of a large number of members for that Session. As compared with the total number of members the non-attendance of all the Sessions had been 47 per cent. The attendance of 83 members in July 2012 was pointed out to them as a weak situation and subsequently the membership of 14 members who absented for 03 consecutive sessions had been abolished.
- (ii) The overall recurrent expenditure of this project commenced in the year 2010 amounted to Rs.59,612,836 by 31 December 2012. The total number of Sessions held had been 08 and the average attendance of members at those Sessions had been 229. As such the Council had incurred a substantial expenditure of Rs.260,318 per member for attending a Session.

3:3 Transactions Extraneous to Objectives

The following observations are made.

- (a) Out of the provisions made for youth development, a sum of Rs.2,916,444 had been spent on activities extraneous to youth development.

- (b) A sum of Rs.3,925,264 had been spent on a musical show held in Maharagama Town.

3:4 Uneconomic Transactions

Instead of preparing T Shirts, Caps, Bottoms, etc. of a common design which can be used for all programmes implemented by the Council as and when required, a sum of Rs.24,152,602 had been spent in the years 2011 and 2012 for preparation of such clothing for each programme.

3:5 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.261,347,372 had been spent up to 31 December 2011 on construction and repairs of capital nature done on 54 units of unmovable properties, 338 acres 03 roods 01 perches not belonging to the Council.
- (b) Even though a sum of Rs.100,000 had been paid for the dismantling and removal of ceiling, lamps and other equipment of the female and male lavatories of the first floor of the Training Building of the Youth Centre at Maharagama, there was no ceiling in the first floor.
- (c) A sum of Rs.5,368,100 had been paid to the United Nations Habitat and Human Settlements Foundation for obtaining an active contribution of the Youth Association established by the United Nations.

The following observations are made in this connection.

- (i) The information on the objectives and purposes expected from obtaining an effective contribution of the Youth Association and the achievement of those had not been furnished to audit.

- (ii) The approval of the Minister had not been obtained for these payments in terms of Sub-paragraph 6(iv) of the Public Enterprises Circular No. PED 57 of 11 February 2011.

- (d) A sum of Rs.4,032,360 had been spent during the period from the year 1985 to the year 1990 for the investment in the shares of the Youth Services Company Limited, the Youth Services (Music) Company Limited and the Youth Services (Dance) Company Limited. No return whatsoever had been received from these investments even by the end of the year under review. In addition the Youth Services (Music) Company Limited and the Youth Services (Dance) Company Limited are mere institutions of nominal nature not carrying out any activities. The Council had failed to furnish any explanations with regard to these companies other than producing the share certificates issued by the Companies.

- (e) Even though the authority for the Regional Procurement Committees for the procurement of goods and services under the shopping procedure of the Government Procurement Guidelines had been limited to purchases less than Rs.500,000, four Regional Offices had exceeded that limit and had made purchases amounting to Rs.7,532,488 in 09 instances. Even though the delegation of financial authority exceeding the above limit had been revised by the Board Paper No. 24/2012 of 25 April 2012, and the instructions issued accordingly by the Office Circular No. 03/2012 of 04 July 2012 had led to taking action exceeding the provisions of the Government Procurement Guidelines.

3:6 Erroneous Payments

The following observations are made.

- (a) Even though a sum of Rs.1,221,725 had been paid for 51 items of work not done in relation to 06 works, action had not been taken for the recovery of those payments.

- (b) A sum of Rs.111,610 had been paid for work not done in connection with the Volley Ball Court constructed in the Division of the Ipalogama Divisional Secretariat, Anuradhapura.

3:7 Identified Losses

Even though Value Added Tax amounting to Rs.66,662 had been overpaid to the contractor in connection with the repairs to the Eraminiyaya Training Centre, the Council had not taken action for the recovery of the money.

3:8 Deficiencies in the Contract Administration

The following observations are made.

- (a) A sum of Rs.17,496,169 had been paid for additional work outside the estimates for 06 construction estimates and that as compared with the agreed amounts in respect of each contract, ranged between 7 per cent to 34 per cent. Action in terms of the Government Procurement Guidelines had not been taken to invite quotations for the additional works and award contracts. Nevertheless, a commitment had been made for the payment of a sum of Rs.4,910,023 to a private institution as consultancy charges for the preparation of plans and estimates of the construction works of the National Youth Services Council.
- (b) Even though contracts had been awarded to two Community Societies for the construction of a volley ball court in the Dikwella area at a cost of Rs.6,498,886, those contracts had not been produced for audit. National Youth Services Council had not entered into a Memorandum of Understanding with the Dikwella Pradeshiya Sabha in accordance with the Project Report. Money had been paid direct to the Pradeshiya Sabha instead of making payments after the examination of the work done reports obtained from the Pradeshiya Sabha by the Construction Division of National Youth Services Council and the recommendations made by a Supervising Committee. Even though the work should have been completed by the end of June 2012, the development work other than the first and the second stages had not been done even by March 2013.
- (c) Construction of Volley Ball Courts in Anuradhapura District

All work in connection with the construction of volley ball courts in the Anuradhapura District concurrently with the Deyata Kirula – 2012 Programme

had been awarded to the Anuradhapura District Youth Services Co-operative Society. That society had retained 5 per cent of the money received for the project and executed the construction work with the balance money through sub-contractors.

The following observations are made in this connection.

- (i) Even though 16 courts should have been constructed only 07 courts had been constructed.
- (ii) Non-compliances with the provisions in the Government Procurement Guidelines had been as follows.

Government Procurement Guidelines -----	Non-compliance -----
Guideline 3.9.1	* Out of the 16 contracts awarded to the Anuradhapura District Youth Services Co-operative Society, all 7 contracts amounting to Rs.9,363,508 constructed had been done through sub-contractors.
	* Sixteen contracts valued at Rs.21,402,304 had been awarded to the Anuradhapura District Youth Services Co-operative Society Limited considered as the accepted society. That Society had awarded 04 contracts valued at Rs.5,350,576 to one person.
Guideline 3.9.4	Bids had not been invited for the award of contracts. Anuradhapura District Youth Service Co-operative Society had been awarded with 16 contracts valued at Rs.21,402,304 exceeding the limit of Rs.200,000 without inviting bids.

- (iii) Separate estimates had not been prepared by physically examining the site of each court while a common estimate had been prepared for all construction works. Accordingly an estimate of Rs.65,000 had been made for ground preparation of the work site by removing trees and removal of top soil and the provision made had been paid for all contracts. But all the proposed Courts were planned for construction in the existing courts and as such the payments made under 07 contracts for that item of work amounting to Rs.455,000 had become a transaction of contentious nature.

- (iv) Instead of installing 34 G.I. pipes for the net-enclosures of the two sport grounds constructed in the Divisions of Padaviya and Kebithigollewa Divisional Secretariats, 26 pipes only had been installed and as such the retaining strength of enclosure net had decreased by about 24 per cent. As compared with the other sports grounds, a long term effectiveness from the sum of Rs.1,825,500 spent on the two enclosure nets cannot be expected.
- (v) A sum of Rs.4,297,816 had been paid for the construction of 04 volley ball courts without a certificate from a Technical Officer.

3:9 Delayed Projects

According to the Guideline 2.14.1 of the Government Procurement Guidelines, at least 05 quotations should be invited for a contract. Nevertheless, 03 bids had been received for 04 contracts with estimated costs ranging from Rs. 6 million to Rs. 42 million totaling Rs.64,387,453. Instead of inviting for quotations again the award had been made to the lowest bid. Even though it was explained that the Government Procurement Guidelines were not followed due to the need for the construction works to be completed in a short period before the commencement of the Deyata Kirula Exhibition scheduled to held in February 2012. the work of none of the contracts had been completed even by 31 March 2013 despite the elapse of 13 months after the end of the Deyata Kirula Exhibition.

3:10 Resources of the Council Supplied to other State Institutions

The Council had taken action to transfer to other parties 14 units of land 68 acres 02 roods 10 perches, to which the Council held the land tenure and used for maintaining Training Centres. However the Council had spent a sum of Rs.56,345,248 for the work of capital nature on those land.

3:11 Staff Administration

The following observations are made.

- (a) The Director General of the Department of Management Services had, by his letter No. DMS/E3/36/4/224/1-1 dated 19 May 2011, approved the staff of the Council. The following matters were revealed in that connection.
- (i) According to paragraph 05 of that letter, additional posts should not be created without the formal approval of the Department of Management Services. Nevertheless, two officers had been recruited to two new posts, namely, the Working Director and the Director (Operations) and had paid a sum of Rs.1,211,679 in the year 2011 for fuel and allowances.
 - (ii) The Director (Administration) informed the audit that a personal file for the officer recruited for the post of Director (Operations) was not available with the Council. Any evidence of the issue of a letter of appointment to that officer had not been furnished to audit.
- (b) A consultant had been recruited on the assignment basis to the International Youth Liaison Division of the Council for the year 2011 to 2014 and had paid sums totaling Rs.2,117,981 comprising a sum of Rs.270,000 for the period from July 2011 to March 2012 and Rs.1,847,981 for foreign travel. The following matters were revealed in that connection.
- (i) The information on the appointment had not been furnished to the Auditor General in terms of Sub-section 2.10 of Chapter VI of the Establishments Code.
 - (ii) The appointment had been made contrary to the Circular No. 28 dated 10 April 2006 without the recommendation of the Secretary to the line Ministry, prior approval of the Department of Management Services and the confirmation of the availability of financial provision obtained from the Department of National Budget.
 - (iii) A specific assignment for specified period had not been issued in terms of the Public Finance Circular No. 449 of dated 24 February 2011 and as such the work done during the specified period could not be identified. In addition, the appointments made on assignment basis should be on short time terms not exceeding 45 days only for urgent services. Nevertheless,

the appointment had been made for 04 years from the year 2011 to the year 2014. The approval of the Secretary to the line Ministry had not been obtained for the payments made to the Officer.

- (c) The posts of Assistant Accountants of 06 Provincial Offices of the Council had been vacant. The posts of Assistant Accountants had been abolished by the letter No. DMS/E3/36/4/229/1 dated 17 January 2011 and created posts of Accounts Officer in that place and the cadre approved for that post had been two officers. Nevertheless, the Council had released a sum of Rs. 439 million for the expenditure of Provincial Offices in the year 2012 and the Provincial offices considered separately that amount ranged between Rs. 29 million to Rs. 99 million.
- (d) The Scheme of Recruitment approved for the National Youth Services Council had not been furnished to audit.

4. Accountability and Good Governance

4:1 Corporate Plan

A review of the operating results of the three preceding years had not been included in the Corporate Plan for the years 2010 to 2014 in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003. As the financial value of the targets for achievement had not been shown, a Corporate Plan facilitating an evaluation of annual progress had not been prepared.

4:2 Procurement Plan

A Procurement Plan in accordance with Guideline 4.2(c) of the Government Procurement Guidelines had not been prepared and approved for the year under review.

4:3 Meetings of the Board of Directors

One Director had not attended any of the meetings of the Board of Directors held in the years 2011 and 2012. The participation of 04 Directors at the meetings held in the year 2012 had been at a weak level.

4:4 Budgetary Control

An overall budget consolidating all funds supplied had not been prepared for the year under review. Out of the provisions amounting to Rs.91,800,000 made in the budget prepared, provisions amounting to Rs.25,584,198 or 28 per cent had been saved. Expenditure incurred under the Establishment, Supplies and Transport had exceeded the provision made by a sum of Rs.33,178,869. Thus it was observed that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

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

- (a) Procurement
- (b) Budgetary Control
- (c) Accounting
- (d) Staff Administration