

## **National Youth Services Council - 2013**

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The audit of financial statements of the National Youth Services Council for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29(1) of the National Youth Services Council Act, No. 69 of 1979. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14(2)(c) of the Finance Act appear in this report. .

### **1.2 Management’s Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate audit evidence to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial statements**

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### **2.1 Qualified Opinion**

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In my opinion except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Youth Services Council as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Preparation of Consolidated Financial Statements**

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Consolidated financial statements had not been prepared as the Subsidiary Company of the National Youth Services Council, namely, the Youth Services Company Ltd. had not prepared the accounts.

### **2.2.2 Sri Lanka Public Sector Accounting Standards**

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Provision for bad debts had been made for a sum of Rs.2,027,500 or 82 per cent of the sundry debtors balance amounting to Rs.2,477,500 devoid of a fair basis contrary to paragraph 38 of the Sri Lanka Public Sector Accounting Standard No. 3. Out of 02 balances totaling to Rs.1,097,500 included in the amount provided for, sums totalling Rs.77,500 had been received during the year under review. But adjustments in that connection had not been made.

### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) The sum of Rs.300,000 paid to the Department of Buildings for the preparation of preliminary plans and estimates for three construction works had been brought to account as debtors instead of being brought to account as an expenditure.
- (b) Even though exhibition stalls costing Rs.6,078,862 with a guarantee period of 05 years should be brought to account as fixed assets, that had been brought to account under recurrent expenditure.
- (c) Seventeen motor vehicles purchased by the Ministry in the years 1986 and 1987 had been used by the Council and those motor vehicles had been transferred in the name of the Council in the years 2012 and 2013. Even though the assessed value of those motor vehicles amounted to Rs.19,375,000, the insured value amounting to Rs.17,850,000 had been brought to account. As such the value of the motor vehicles had been understated by a sum of Rs.1,525,000.

- (d) Fifteen motor vehicles used by the Council had been given in the year under review to the Training Programmes of the Council as training equipment. But the value of those motor vehicles had not been assessed and brought to account under the training equipment.
- (e) Even though a sum of Rs.4,086,844 had been shown in the cash flow statement as prior year adjustments, according to the financial statements that amounted to Rs.3,045,243. Accordingly, the negative balance of the operating results before changes in the working capital of the year under review had been understated by that difference amounting to Rs.1,041,601.
- (f) The net balance of receipts from the Ministry of Youth Affairs and Skills Development as recurrent grants during the year amounting to Rs.29,357,132 had been shown as a negative balance in the financial statements. As expenditure exceeding the recurrent grant of Rs.201,288,877 made by the Ministry had been posted a negative balance had been reflected. The balance of receipts from foreign organizations amounting to Rs.2,851,856 had been deducted from that balances and the remaining sum of Rs.26,505,276 had been included as a negative balance in the schedule of current liabilities, thus resulting in an understatement of the current liabilities by that amount.
- (g) The Western Provincial Income Collection Account included unidentified income amounting to Rs.2,909,388 as at the end of the year under review and out of that a sum of Rs.437,467 related to the year 2011. Accordingly, the other income for the year had been understated by that amount.

#### 2.2.4 Lack of Evidence for Audit

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

<b>Item of Account</b> -----	<b>Value</b> -----	<b>Evidence not made available</b> -----
	<b>Rs.</b>	
(i) Preparation of Youth Awards for the District Youth Awards Festival 2013.	903,500	Information in support of the supplies made according to expected quality and quantity, prior taking over by the stores and distribution among the District Offices under the supervision of a responsible officer.
(ii) Distribution of District Sports Goods	3,655,000	Particulars of the quantity and category of sports goods supplied to each Sports Association.

## 2.3 Accounts Receivable

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The following matters were observed.

- (a) The sum of Rs.538,950 receivable from the Department of Sports Development since the year 2010 had not been recovered even by the end of the year under review.
- (b) Out of the balance of Rs.51,077 remaining from the floods and landslides advances paid to two officers, relating to a period between 2 to 3 years, no recoveries whatsoever had been made during the year.

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

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

### Reference to Laws, Rules, Regulations and Management Decisions

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### Non-compliance

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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulations 103(1) and 104(1)

(ii) Financial Regulation 109

(b) Guideline 2.5 of the Government Procurement Guidelines 2006.

An examination of the Board of Survey Reports of the Pannala Farm Centre for the years 2011 and 2012 revealed a shortage of 48 bearing coconut palms 24 coconut seedling and one each of teak and jak trees. The Council had not identified the shortage and taken action in terms of Financial Regulations.

Instead of taking action in terms of Financial Regulation for the write off from books the shortages of goods valued at Rs.361,740 identified by the Board of Survey, that had been written off to the balance of the income and expenditure account of prior years through journal entries.

As the cost estimate of Rs.7,225,680 submitted for the construction of the Deyata Kirula Exhibition Stall had not presented the item-wise expenditure in detail, the Procurement Committee had awarded the procurement without carrying out a proper evaluation of the quotation.

## **2.5 Transactions not supported by Adequate Authority**

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The assets not brought to account identified during the Board of Survey had been adjusted to the income and expenditure account and the assets account of the prior year at the total value of Rs.1,158,689 submitted by the Board of Survey instead of being properly assessed and brought to account at the correct value.

## **3. Financial Review**

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### **3.1 Financial Results**

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The financial result of the operations of the Council for the year under review amounted to a deficit of Rs.253.28 million as compared with the corresponding deficit of Rs.73.71 million for the preceding year. Accordingly, the financial results for the year under review, as compared with the preceding year, indicated a deterioration of Rs.179.57 million. The increase of the operating and youth development expenditure by a sum of Rs.333 million had been the main reason for the deterioration.

### **3.2 Legal Action instituted against the Council**

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Nineteen cases filed against the Council and 13 cases filed by the Council as the plaintiff had not been finalized even by the end of the year under review.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a) According to the Farms Working Account furnished for audit, the loss of 12 Farm for the year amounted to Rs.3,496,409.
- (b) The expected targets of the following programmes included in the Annual Action Plan had not been achieved.
  - (i) Annual budgetary provision amounting to Rs.4,244,000 had been made for the establishment of an internal software system containing the information on about 5.6 million youths through the Youth Survey Programme. The entire provision had been transferred to the Youth Awards Authority without implementing that programme.
  - (ii) Even though plan had been made for the conduct of 104 programmes at 04 programmes per district at a cost of Rs.870,000 with a view to obtaining ideas and proposals of the youth leaders on the youth programmes under the Youth Strength Incentive Programme suitable for the respective areas, only 51 programmes had been conducted during the year at a cost of Rs.429,410.

- (c) The matters revealed in relating to the performance of the Kurunegala District Training Centre and the Regional Training Centres are given below.
  - (i) The actual participation of students for 08 training programmes, conducted at the Training Centres at Galgamuwa, Polgahawela and Mawathagama had been at a low level of 50 per cent.
  - (ii) Even though the Training Centre at Ethugalpura had planned to conduct 17 training programmes during the year under review, 10 programmes had not been conducted.
  - (iii) Even though the Training Centre at Ethugalpura had planned to conduct the course on landscape gardening for 100 students under 04 programmes, only 02 programmes with the participation of 38 students had been conducted during the year.

#### **4.2 Management Inefficiencies**

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The following observations are made.

- (a) The following observations are made in connection with the establishment of the Sri Lanka Youth News APP service at a cost of Rs.1,051,008 to provide the youths instant access to the information on the services rendered by the Council to the Youth of Sri Lanka.
  - (i) This work had been awarded contrary to the instructions of the Procurement Guidelines without inviting competitive bids to a Government Television Institution which is not a service provider in the related field. That company had carried out the work through another private institutions. The entire amount had been paid by the Council without obtaining a certificate from a subject specialist that the work had been properly done.
  - (ii) Even though the target group of the programme had been 1,000,000 members of the younger generation between the ages of 14 to 30 years, according to an audit check only about 100 to 500 persons had been obtaining this service as appearing in the Internet Webpage dated 25 September 2013. That number had decreased to 10 to 50 by 30 January 2014.
  - (iii) A course of action for the maintenance of updated information on the service in the Sri Lanka Youth News APP Website and for the instant supply of information through mobile phones had not been implemented under the supervision of a responsible officer. The cost incurred had become fruitless as the expected objectives had not been achieved.
- (b) The matters revealed in connection with the programme for the selection of the emerging youth leader of the year 2012 are given below.

- (i) According to the plan, the work should have been started in August 2012 and should have been completed under 07 stages by January 2013. But the work had been delayed up to 27 June 2014. A detailed total cost estimate had not been prepared for the work. The expenditure incurred in this connection in several instances amounted to Rs.42,658,439.
  - (ii) Expenditure amounting to Rs.1,065,768 had been incurred on the awareness programme related to the work held in a hotel on 30 August 2012. But, the impact of that on the success of the programme had not been explained to audit.
  - (iii) A private media institution had been selected without following a proper methodology for the transmission of the programme on television under 02 stages. Sums totalling Rs.6,962,800 had been paid in that connection.
  - (iv) Sums totalling Rs.10,267,891 had been paid to an external institution for the production of the Television Programme. That Council had not prepared a detailed cost estimate for the purpose. The payment had been made by approving the cost estimate furnished by the institution without carrying out an evaluation.
- (c) A sum of Rs.6,923,699 had been paid to an external institution for the construction of the model for the Youth Parliament Construction Programme commenced and implemented in the year 2011 and uneconomic payments had been made to that institution for repairing, assembling and dismantling the model at each Parliamentary Sessions held.

The following further matters were observed in that connection.

- (i) The agreement entered in to in this connection had been valid only for the duration of the inaugural session.
  - (ii) The Parliament model had been assembled and dismantled at each of the 12 Sessions held from the year 2011 July to the end of the year under review and a sum of Rs.32,474,374 in that connection and Rs.2,000,000 for repairs, both totalling Rs.34,474,374 had been paid without an evaluation and certification of the work done.
- (d) Sum totalling Rs.191,853 had been paid to a Government Officer for the preparation of the Corporate Plan for the years 2012 to 2014 and that included the expenditure on computerizing and proof reading of the report. The following matters were revealed in that connection.
- (i) Even though the Council has a Planning Division the work had been done by an external party and the Corporate Plan prepared did not include the Strengths, Weaknesses, Opportunities and Threats of the Council.

- (ii) The Development Plan for the Council had not been prepared in agreement with the Corporate Plan and the Action Plan. The ongoing programmes of the Council only had been included in the Development Plan for the year 2013 and implemented.
  
- (e) The Council and its affiliated Training Centres had conducted 82 full-time training courses during the years. Out of that 26 courses had not obtained in accreditation certificates due to the lack of the required basic facilities and training equipment needed for the accreditation level. Audit field inspections revealed that, out of the 04 Training Centres implemented in the Kurunegala District, 03 Training Centres did not have the basic facilities and the training equipment needed for obtaining the accreditation level (National Vocational Qualification) Certificates.

### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) Out of the aid amounting to Rs.23,030,865 received from 03 foreign organization, a sum of Rs.5,174,109 had been left idling for periods ranging from 01 year to 07 years without being spent on the relevant objectives and the money had been credited to the income of the Council during the year under review.
  
- (b) Sums totalling Rs.421,319,804 had been given by the Council as imprests during the year 2013 for the expenditure of the 09 Regional Offices of the Council. That represented 28 per cent of the annual expenditure of the Council. According to the following matters it was observed that an adequate internal control is not in operation for the release and settlement of such imprests as well as the collection and accounting for income.
  - (i) Financial administration work is not being done by officers with proper authority.
  - (ii) Lack of an adequate delegation of duties among the staff.
  - (iii) Lack of a proper supervision of the settlement of imprests and expenditure.
  
- (c) A decision had been taken for the recovery of a loan balance of Rs.327,425 remaining recoverable from the year 2010 from an officer whose name is included in the Schedule of Recoverable Losses, at Rs.1,000 per month. Accordingly, the recovery period covers 27 years. As compared with the service period of the officer, it was observed that it is not possible to cover the loss.



#### **4.4 Transactions Extraneous to Objectives**

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Sums totalling Rs.2,863,785 had been spent on the annual get-together of the officers not included in the Action Plan for the year 2013 for which pre-plans and estimates of expenditure had not been approved. Out of that a sum of Rs.1,323,000 had been spent on the evening refreshments and dinner for 2,100 officers.

#### **4.5 Uneconomic Transactions**

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The following observations are made.

- (a) Even though the production of a short film of 20 minutes running times depicting the role of the Ministry of Youth Services and Skills Development had been planned for execution by the NYSCO Video Division with a view to displaying the skills of the officers of that Division, that work had been executed through a private institution at a cost of Rs.2,000,000 stating that the said Division did not have the required resources and without following a proper methodology. Even though this work had been executed through a private institution as an urgent work, completion and handover had been delayed by one month from the specified date.
- (b) A sum of Rs.159,968 for obtaining architectural designs and the publication of newspaper notices and a sum of Rs.1,086,750 for consultancy services had been spent in the year 2012 for the construction of the first Youth Park at Matara concurrently with the International Youth Conference. The Conference had been held in May 2014 and the related work had been abandoned without being completed.
- (c) A sum of Rs.575,000 had been paid in the year 2007 for the preparation of preliminary plans for the constructing of the Panadura Youth University. Action had not been taken for the commencement of that work area by the end of the year 2013.

#### **4.6 Idle and Underutilized Assets**

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Thirty four musical instruments of different kinds required for the conduct of Music Courses remained idle in the stores of the Kurunegala District Office over a period of about 05 years.

#### **4.7 Identified Losses**

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The following observations are made.

- (a) An audit test check revealed that the Nation Building Tax amounting to Rs.969,211 had been paid contrary to the Nation Building Tax Act, on bills without the tax number and that the Value Added Tax amounting to Rs.113,695 had been overpaid due to the inclusion of the Nation Building Tax for the computation of the Value Added Tax.

- (b) Sums totalling Rs.4,032,360 had been spent during the period from the year 1985 to the year 1990 for investments in the shares of the Youth Services Company Ltd., the Youth Services (Music) Company Ltd. and the Youth Services (Dance) Company Ltd. Those investments had not yielded any returns whatsoever to the Council even up to the end of the year under review. Further, the Youth Services (Music) Company Ltd., and the Youth Services (Dance) Company Ltd. are merely nominal institutions without any functions.

#### **4.8 Deficiencies in Contract Administration**

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The following observations are made.

- (a) The contract valued at Rs.841,890 for the construction of the latrines system and the modernization of the electrical system of the Lewwegoda Training Centre had been awarded to a contractor and 20 per cent of the contract value amounting to Rs.168,378 had been paid on 26 December 2005 as the mobilization advance. The matters revealed in that connection are given below.
- (i) A sum of Rs.116,195 had been recovered from the value of the work certified on 29 December 2005 amounting to Rs.464,780. The further recoverable revenue of Rs.52,182 had been treated as irrecoverable and written off in the year 2013 as doubtful debts.
- (ii) The final bill for Rs.732,749 furnished by the contractor on 15 December 2006 had not been certified by the Technical Officer or an Engineer. Information on the payment made for the bill or the handover of the work after proper completion of the work was not available in the file.
- (b) Bids for the construction of the Youth Resort and the Youth Conference Office at Anuradhapura had been invited from three contractors. The Technical Evaluation Committee had recommended that the award of the bid to the contractor who submitted the lowest quotations of Rs.8,089,950 is not suitable as the contractor had submitted an invalid bid bond and that it is appropriate to negotiate with the contractor who submitted the next lower bid of Rs.8,297,230 to reduce the costs. But without taking such action, the Procurement Committee had decided to award the contract to the contractor who submitted the lowest bid.

The matters further revealed in this connection are given below.

- (i) Even though the contract should have been completed on 02 February 2012, it had not been completed even by 31 December 2013, the date of audit.
- (ii) In addition to the original contract, proposals had been made for the construction of an open restaurant, a saloon and a motor vehicles park and a cost estimate of Rs.3,536,220 had been prepared for that purpose. Instead of calling for fresh quotations for that work, that had been treated as additional work and awarded that to the same contractor. That work represented 43.71 per cent of the value of the original contract.

- (iii) Even though the Engineering Consultants had informed the Council by letter dated 15 May 2013 to stop the work on the contract due to the deployment of unskilled labour to carry out the work and the long delays involved, action had not been taken against the contractor.

#### **4.9 Staff Administration**

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The following observations are made.

- (a) Vacancies in 50 posts of Staff Grade including the posts Senior Staff Grade posts existed and officers in the lower grades and 27 officers recruited from outside had been deployed on covering up duties of those posts. That represented 35 per cent of the number of Staff Grade Officers.
- (b) Five Officers appointed as Bookkeepers had served as the Accountants of Regional and District Offices. Out of those 03 officers had served on the acting basis for more than 05 years.
- (c) In addition to the staff approved for the Council by letter No. DMS/E3/36/04/224/1-1 dated 09 May 2011 of the Director General of Management Services, 422 officers in 16 posts had been deployed in service by the end of the year under review.

### **5. Accountability and Good Governance**

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#### **5.1 Budgetary Control**

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The following observations are made.

- (a) The expenditure incurred had exceeded the overall budgetary provision of Rs.1,400 million approved in the budget for the year under review by a sum of Rs.60 million.
- (b) Even though the Council had received a sum of Rs.566 million for the Youth Development Works and holding the World Youth Conference under the Youth Development Expenditure Item in the year under review, a sum of Rs.627 million had been spent. As such a sum of Rs.61 million exceeding the receipts for the programmes had been spent.
- (c) Out of the annual budgetary provision of Rs.221,515,000 made for 05 Divisions making a direct contribution for the achievement of the objectives of the Council, sums totalling Rs.131,025,372 (59.14 per cent) had been saved without being utilized for the respective objectives.
- (d) According to the annual budget, the provision made for the general administrative expenditure of the Council amounted to Rs.647,000,000 and a sum of Rs.97,680,568 exceeding that provision had been spent during the year.

- (e) A sum of Rs.26,126,198 had been spent in the year under review in respect of the year 2012 under Financial Regulations 115(3) and the total sum spent out of the provisions for the year 2014 as debtors relating to the year 2013 amounted to Rs.36,930,691. This position was observed as an impediment to the achievement of budgetary control objectives.

## **5.2 Unsettled Audit Paragraphs**

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The attention of the management had not been paid to the following matters pointed out in the Audit Report for the year 2012.

- (i) According to Section 27 of the National Youth Service Council Act, No. 69 of 1979, all the properties belonging to the Council should be utilized for the improvement of its objectives. Nevertheless, a land had been obtained from the Urban Development Authority on lease for a period of 50 years from July 2000 at a cost of Rs.3,300,000 for the construction of the Youth Centre at Beruwala. A sum of Rs.3,398,200 had been spent in that connection as at 31 December 2013. Even though a period of 13 years had elapsed after obtaining the land, that asset had not been used for the achievement of the objectives of the Council.
- (ii) A sum of Rs.1,671,900 collected contrary to Sections 25 and 26 of the Finance Act, No. 38 of 1971 for the construction of the Murukkandi Temple Railway station had been deposited in a Bank Account from the year 2009 without the approval of the Treasury.
- (iii) Even though a sum of Rs.575,000 had been paid in the year 2007 for the preparation of the preliminary plans for the construction of Youth Universities in 03 regions, those construction work's had not been commenced even by the end of the year 2013.

## **6. Systems and Controls**

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

- (a) Budgetary Control
- (b) Procurement
- (c) Accounting
- (d) Staff Administration
- (e) Contract Administration
- (f) Internal Control