Sri Lanka Youth Services (Private) Limited - 2017/2018

The audit of the financial statements of the Sri Lanka Youth Services (Pvt) Ltd. for the year ended 31 March 2018, comprising the statement of financial position as at 31 March 2018 comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Democratic Socialist Republic of Sri Lanka. My observations on the performance of the Company for the year under review which I consider Should be tabled in parliament by me in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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

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. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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 the financial statements.

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

1.4 Basis for Qualified Opinion

(a) Out of the value to be paid to the parties involved in the financial statements, the loan to be received from the Nisco Association is Rs. 98,185 and the loan amount payable to the Youth Services Company was Rs. 1,341,155 and it was stated in the financial statements offsetting the balance received and payable contrary to the paragraph 32 of Sri Lanka Accounting Standards 01.

(b) Contrary to paragraph 6 of the Sri Lanka Accounting Standards 07, In cash and equivalents of the company's cash flow statement was Rs. 1,199,172 With the inclusion of a fixed deposit value of the year-end cash balance was overstated by that amount.

(c) In terms of paragraph 43 of the Sri Lanka Accounting Standards 16, Property plant and equipment should be depreciate annually, but the cost is Rs. 2,875,392 due to non-depreciation of fixed assets, The net profit for the year had been over stated Rs. 705,475.

(d) In terms of paragraph 51 of the Sri Lanka Accounting Standard 16, even the useful life the property Plant and Equipment shall be annually reviewed, as it was not complied , 08 items of assets value at Rs.605,667 which had been fully depreciated were being further utilized. Accordingly action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08. However , according to the accounting policy mentioned in the Notes No. 3.1.2 of the financial statements , it was stated that the useful life of the assets and depreciation rates are annually reviewed.

(e) At the beginning of the year under review, the Company's payable Income Tax balance was Rs. 10,981,533 and the value of income tax for the year was Rs. 469,262. Accordingly, the income tax liability at the end of the year should be Rs. 11,450,795 but it was stated in the financial statements as Rs. 10,512,271. the amount of tax payable under current liabilities had been under stated by Rs. 938,524, Although the income tax was calculated as 469,262, the details of how the taxable income was calculated had not been submitted to the audit.

(f) Although the income tax should be deducted from the profit before tax for the year, according to the company's comprehensive income statement, tax value was added to the net profit for the year. therefore net profit had been over stated by Rs. 938,524.

(g) Rs. 12,396,090 for gratuity allocations Due to non-submission of schedules and Due to non-submission of approved journal vouchers for 18 journal entries amounting to Rs.19,104,423, the accuracy of the relevant balances could not be verified during the audit.

(h) The cost of 08 assets included in the Property plant and equipment in the company's financial statements was Rs. 3,821,976 but its cumulative depreciation value by being Rs. 6,282,724, It was observed that exceeding the cost is Rs.2,460,748 depreciation allocations had been made.

(i) According to the financial statements of the company, the loan balance due to the company from the National Youth Services Council is Rs. 73,131,001, but according to the financial statements of the National Youth Services Council, the outstanding balance of the company was Rs. 3,602,189 and between the two balances, There was a difference of Rs.69,528,812.

(j) Unidentified initial bank deposit balance is Rs. 4,434,001 without taking action to identify which Rs. 4,039,141 had been cut. That balance is Rs. 3,494,234 from the balance transferred from the unidentified deposit account and Consisted of Rs. 544,907 is unspecified direct liabilities. The balance of unidentified bank deposits is the value of Rs. 394,860 was accounted for under other payable liabilities.

(k) In other payable balances in the company's financial statements, An unidentified balance of Rs. 28,395,326 was included.

(l) Out of the total credit value, the Purchases and banking fees of Rs. 78,011 and also one division of the company, the upper canteen and the lower canteen together cost Rs. 8, 087,670 had been credited to the creditors' account. Therefore, Creditors balance had been over stated by that amount.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report , the financial statements give a true and fair view of the financial position of the Sri Lanka Youth Services (Private) Limited. as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

(a) The basis of opinion, scope and limitations of the audit are as stated above.

(b) All the information and explanations that were required for the audit have been obtained and, as far as appears from my examination, proper book and records have been kept by the Company,

The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.3 Non-compliance with laws, rules, regulations and management decisions

The following non-compliance were observed.

	Reference to laws, Rules and Regulations	Non- compliance
(a)	Section 2(2) of the Economic Service Charge (amended) Act No.13 of 2006.	Economic Services charge to be paid when the quarterly turnover exceeds the Rs.12.5 million. However, it had not been registered under the Act even the quarterly turnover was Rs.51,424,340. Therefore, it was observed that amount of Rs.1,028,487 as Economic service charge and penalty therein had to be paid.

(b)	Section 10 of the Value Added Tax (amended) Act No.14 of 2002	It should be registered under Value added Tax Act when the quarterly turnover of the Company exceeds the Rs. 3,000,000 or annual turnover exceeds Rs.12,000,000. However, it had not been registered under the Value added tax Act even the Quarterly turnover of the Company was Rs. 51,424,340.
(c)	Section 3 of the Nation Building Tax (amended) Act No.9 of 2009	Nation Building Tax Shall be paid by that company when the Quarterly turnover exceeds the Rs.3 million. However, it had not been registered under the Nation Building Tax Act even the quarterly turnover was Rs. 51,424,340. Therefore, it was observed that amount of Rs. 4,113,947 as Nation Building Tax and penalty therein had to be paid by the company.
(d)	Paragraph 7.4.5 of the public Enterprises circular number PED/12 of June 2003	The Company had not been conducted a Board of survey from its inception.

3. Financial Review

Financial Results

According to the Financial Statements Presented, The Financial Results of the company for the year under review had been a net profit of Rs.17,641,469 as compare with the net profit of Rs.5,737,553 for the preceding year thus increasing of financial results by Rs.11,903,916 or 207 percent as compared with the preceding year. The Increase of Other income compared to last year was Rs. 7,346,502, decrease of direct cost Rs. 2,447,129 , while decrease of administrative and general expenses Rs. 27,259,419 and the income tax liability was Rs. 469,262 and added to the profit had a direct impact on the above growth.

4. Operating Review

4.1 Operational inefficiencies

The following observations are made.

(a) According to the financial statements for the year under review, the cost of food and beverages at the canteen was Rs. 5,074,851, an increase of 1399 per cent over the previous year. This expenditure included the expenses incurred for obtaining lunch for the programs of the National Youth Services Council. Although the primary function of the canteen was to prepare and sell food, a large sum of money was spent on purchasing processed food from outside Restaurant.

(b) Sri Lanka Youth Services Company Ltd. had not been paid income tax in terms of Section 113 of the Inland Revenue Act No. 10 of 2006 and had not been furnished the income tax returns as per Section 106 of the Act for the year under review and for the last

06 years as required. According to the financial statement Income tax liability was Rs. 10,512,271, but according to the available information, the income tax liability of the company Should be Rs. 11,420,795. In terms of Section 173 (3) of the Act, Due to the non-payment of income tax to the Sri Lanka Youth Services Pvt. A penalty of Rs. 5,411,402 could be imposed but adequate provision had not been made for the additional penalty to be paid.

(c) At the end of the year under review, trade and other payments amounted to Rs. 62,323,650 Management had not been taken action to settle the outstanding balances over 3 years old of Rs. 35,124,701and to recover the outstanding balances amounting to Rs.14,263,629 between 1 and 7 years old which had been paid to the officers of the company and various sections of the company.

4.2 Resources of the Company given to other entities

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In terms of paragraph 8.3.9 of the Public Enterprises Circular number PED /12 of 02 June 2003, permission had not been granted to utilize the resources of public Enterprises by other government entities .However, an employee of the company had been attached to the Gampaha office of the National Youth Services Council on the basis of reimbursement of salaries from December 2010. Even though, salaries and wages totaling Rs. 2,446,114 had been paid to him by the company up to 31 march 2018, the council had not reimbursed that money.

5. Accountability and Good Governance

Presentation of Financial Statements

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In terms of paragraph 6.5.1 of the Public Enterprises Circular number PED/12 of 02 June 2003, the financial statement should be submitted to the Auditor General within 60 days after the end of the accounting Year. However, the financial statements of the company had been presented on 06 December 2021.

6. **Systems and Controls**

Weaknesses in a systems and controls observed in audit had been referred to the attention of the chairman of the company from time to time. Special attention is needed in respect of the following areas of systems and controls.

Areas of systems of controls	Observations
(a) Budgetary control	Action had not taken to prepare the annual budget estimate and perform accordingly in compliance with the performance, plans and target of the company.
(b) Accounting	Non-maintenance of adequate books relating to the accounting, books, records and documents.

(c) Internal control	Segregation of works in a manner by specifying the responsibility in terms of his duties and Writing assignment of duties in a manner that one officer's work should be supervised by another officer had not been carried out.
(d) Stores control	Sufficient control systems in respect of stores not maintained, ensuring proper positive of stores receipt and issue and safeguard of goods.
(e) Debtors and creditors control	Action not taken to keep accurate particulars in respect of debtors and creditors and to settle lapsed balances.