

National Youth Services Council – 2017

The audit of financial statements of the National Youth Services Council for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 information, 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

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

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 Auditing 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 misstatement 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. Sub-sections (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 to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 2017 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

2.2.1 Consolidated Financial Statements

The financial statements had not been prepared by consolidating with financial statements of the Youth Services Company Ltd initiated in the year 1981 and being operated with 98 per cent of share entitled to the National Youth Services Council.

2.2.2 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 07

- (i) According to paragraph 65 of the Standards, fully depreciated 477 buildings, 84 motor cars and 5,608 units of furniture equipment as at the end of the year under review had been further used without annual reviewing of the useful life of non-current assets. Thus, action had not been taken to revise the estimated error occurred in terms of Sri Lanka Public Sector Accounting Standard 03. Further, the gross carrying value of it had not been revealed in the financial statements.
- (ii) Even though any asset was acquired through a non-exchange transaction, it should be accounted at its fair value at the date of acquisition according to Paragraph 25 of the Standard, an expenditure incurred such as construct security fences and walls in lands of 12 training centres only had been accounted under lands and buildings in statement of financial position.

2.2.3 Accounting Policies

The following observations are made.

- (a) An accounting policy had not been identified for identification of grants as revenue under systematical basis received from Sri Lankan government and foreign governments were shown under equity in statement of financial position.
- (b) Even though depreciation of an asset should be commenced after it was ready to be used, a policy had been identified contrarily as depreciation which commence on following year the fixed assets were purchased.
- (c) Even though the stocks were valued on less value either cost or net realizable value, a stocks policy had been identified contrarily as stocks were valued at cost.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) The value of 05 lands were owned by the Council had not been estimated and included in financial statements.
- (b) The value of the land amounting to Rs.2,131,200 as at 31 December 2017 obtained under 50 years long-term lease basis from the Urban Development Authority in year 2000 had been included under land and building in statement of financial position instead of shown as lease properties.
- (c) Even though a sum of Rs.7,931,519 were shown as annual profit relating to 20 farms being operated by the National Youth Services Council, suitable adjustments had not been provided on assets depreciation, closing stocks of agrarian crops and credit sale on farm products.
- (d) The value of work-in progress totalling Rs.753,903,484 as at 31 December 2017 of the National Youth Services Council had been improperly shown under other financial assets in statement of financial position.

2.2.5 Unexplained Differences

Even though the credit balance payable to the Sri Lanka Youth Services Company Ltd as at end of the year under review had been shown as Rs.3,602,190 according to the financial statements of the company, aggregate loan balances recovered from the Council as at that date was Rs.73,427,936 and a difference of Rs.69,825,746 were observed in between the two balances according to the information furnished to audit by that company.

2.2.6 Accounts Receivable

The balance amounting to Rs.538,950 which had lapsed over 07 years receivable from the Department of Sports Development as at 31 December 2017 had also been impossible to recovered during the year under review.

3. Financial Review

3.1 Financial Results

The financial result of the Council in the year under review had resulted in a deficit of Rs.292,520,000 as compared with the corresponding deficit of Rs.269,787,000 for the preceding year, thus indicating an deterioration of Rs.22,733,000 in the financial result in the year under review. Above deterioration had been mainly resulted due to increase in operating expenditure by Rs.51,557,000 and youth development expenditure by Rs.461,825,000 despite the increase in total revenue by Rs. 490,649,000.

Analyzing the financial results of 04 preceding years and the year under review, the deficit amounting to Rs.253,277,000 in the year 2013 had been improved with fluctuations and reached to Rs.292,520,000 during the year under review. However, the contribution of Rs.1,124,581,000 had continuously increased and reached to Rs.1,993,313,000 in the year 2017 after adjust the personnel emoluments and depreciation for non- current assets to the financial results.

4. Operating Review

4.1 Performance and Review

The following observations are made relating to the programmes planned to be implemented in the year under review for achievement of objectives mentioned in Section 4 of the National Youth Services Act, No.69 of 1979.

- (i) Three programmes which were included in Action Plan of the year under review had not been implemented and a sum of Rs.500,000 had been allocated to commencement of 02 business technical colleges for deliver the relevant trainings and assist to maintain a business with more effective manner for existing entrepreneurs and students in professional training institutions and young entrepreneurs who were supposed to engage to new businesses through it. Even though a newspaper advertisement were published by incurred a sum of Rs.1,454,417 for this, this programme had not been conducted due to reasons shown as sufficient number of applications were not received.
- (ii) Even though it was reached to the desired targets from almost all programmes including in Annual Action Plan, the awareness programmes for school children and the awareness programmes for school leavers had not been conducted as expected and the progress of those were 38 per cent and 48 per cent respectively.

4.2 Management Activities

The following observations are made.

- (a) Relevant rectifications had not been accomplished up to 14 August 2018 regarding 21 observations were disclosed from 11 investigation reports issued by the Internal Audit Unit of the National Youth Services Council during the year 2017.
- (b) Three vehicles belong to external institutions being used by the Council since more than 03 years without transfer the ownership.

4.3 Operating Activities

The following observations are made.

- (a) According to the information furnished to audit by the Land Unit, the Council had been failed to transfer the title of 59 lands possess by the Council as at 31 December 2017. In addition to this, though the land continue the training centre in Polgahawela and the land situated in Borella belongs to the Railway Department being possessed by the Council since more than 32 and 30 years respectively, action had not been taken to clear the title of those lands up to now.
- (b) Skills Sector Development Programme
 - (i) The Performance Allowances had been paid without proper evaluation concerning performances and correctly define the criteria furnished by the Ministry of Skills Development and Vocational Training were observed during audit test check on Performance Allowance being paid to academic staff by the National Youth Services Council under Skill Sector Development Programme. A sum of Rs.4.002 million had been paid as Performance Allowances by the National Youth Services Council during the year 2017.
 - (ii) Whereas relevant certificates targeted to be obtained by establish the Quality Management Systems in 20 training centres according to Action Plan of the year 2017 and 10 training centres relevant to 2016 for the National Youth Services Council through the circular for establishment of Quality Management Systems and development of Quality Culture in training centres No.MSDVT/SSDP/2016-1 dated 26 February 2016 of the Secretary to the Ministry of Skills Development and Vocational Training, Quality Management certificates had been obtained only 07 training centres out of 52 training centres owned by the Council as at 30 April 2018.
 - (iii) Although a sum of Rs.33,600,000 had been allocated for the entire time period as Rs.4,800,000 per month for payment of allowance of Rs.4,000 per month for 100 students identified out of students who were needed financial assistances under activity No. 1.4.6 relevant to the Council in the Detail Activity Plan approved from the year 2014 to 2020 of the above programme,

there were no such activity had been included in Annual Action Plans of the Council for the year 2014 to year 2017.

- (c) The following observations are made on programme implemented under financial assistances of Rs.2,961,000 from United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) being aimed to strengthen capacity of the government to execute the sustainable development policies need to be well response for youth in Sri Lanka.
- (i) The Youth Organization Development Unit of the National Youth Services Council had been involved to this programme and the possibilities were prevailed to access for all information need to be prepared these strategical policies. The Assistant Director of Youth Organization Development Unit and two another officers had been participated for all programmes, lectures and discussions conducted with ESCAP. Though the Council has the possibility to implement the programs, the Council had been selected non-government organization as a partner for implement this programme.
- (ii) A sum of Rs.1,005,000 had been paid to a non-government organization on 17 October 2017 as advance on board decision without compliance to paragraph 5.4.4 of Government Procurement Guideline in 2006 without obtained a mortgage bond and confirm the existence of that institute.
- (d) The student's enrollment for full time courses conducted in 48 training centres of National Youth Services Council for the year 2016 was 8,557 and shown an improvement of 14.66 per cent compared with the previous year. Thus the students for the year 2017 was 9,169 and observed an improvement of 7.15 per cent. Although the annual student registration had gone up, annual growth of recruitment decrease by 7.51 per cent for the year 2017 compared with the year 2016 were observed.
- (e) The courses drop out percentage of the registered students during the period from the year 2014 to the year 2016 were ranged 20 per cent to 21 per cent and it had been further increased up to 27.89 per cent in the year 2017.

4.4 Underutilized Funds

A sum of Rs.2,215,328 had been received to the National Youth Services Council from United Nation Organization under Active Citizen Training Programme in the year 2015 and it had not been utilized for the relevant purpose as at 30 June 2018.

4.5 Idle and Underutilized Assets

The following observations are made. prevailing

- (a) According to the Stock Verification Reports of the stores were furnished as at 31 December 2017, 368 units of sports equipment in 09 categories totalling Rs.405,850 being existed over two years period and 2,207 units of other goods in 09 categories totalling Rs.837,952 being existed over one year had been remained idle in the branch were observed.

- (b) According to the agreement signed on 23 June 2003 with Urban Development Authority, a land extend of 01 acre acquired from Beruwala area on rent basis to construct a Youth Centres with payment conditions of ground rent of Rs.1,000 per annum in addition to the payment of Rs.2,960,000 had been remained idle without any construction up to 15 March 2018.
- (c) The Council had been taken over a 20 perches land by a deed of gift on 09 October 1996 situated at Gonahene area in Adhikari Pattu, Siyane Korale owned by private party for the purpose of continue a vocational training centre of the National Youth Services Council by construct a 3000 square feet building within three years and the Council had not been taken any action to commence vocational training centre in that place. Accordingly, this land was remained idle over 21 years were observed.

4.6 Resources of the Council given to other Government Institutions

The following observations are made.

- (a) The cost at Rs.24,100,000 of 02 vehicles since year 2012 and 01 vehicle since year 2013 belong to the institute had been given to use for the Line Ministry.
- (b) The 03 senior management level officers and an Assistant youth Services Officer had been deployed in 03 institutions were not connected to the National Youth Services Council.

4.7 Staff Administration

The following observations are made.

- (a) The approved cadre of the National Youth Services Council as at 31 December 2017 was 1431 and the actual cadre was 1245. Thus vacancies in 186 posts were observed.
- (b) Three officers had been attached as secondment basis to 03 top management level posts in the National Youth Services Council since 18 months to 03 years period and 10 officers had been appointed for acting duties of the Deputy Director posts.
- (c) The officers had been attached on acting and covering up basis for 15 post of Deputy Directors, 12 post of Assistant Directors and 04 post of medium level in addition to the cadre approved by Department of Management Services as at 08 November 2016. According to the latter No.DMS/1671-V-II dated 08 November 2016 of Director General of Management Services, informed that whatever appointments for post on acting, covering up or permanent basis can be made within the approved cadre and to be corrected these situation. But rectification procedures had not been taken up to 31 December 2017.
- (d) A Media Advisor had been appointed from 30 April 2015 with Fuel, vehicle and monthly allowance of Rs.40,000 on basis to perform duties in post of Media Advisor which was not in approved cadre and a sum totalling Rs.1,281,333 had been paid as monthly allowance as at 31 December 2017.

- (e) The approved cadre of the Technical and Vocational Training Unit of the National Youth Services Council was 176. There were 61 vacancies as at 31 March 2018 including the post of Director (Training) and Deputy Director (Technical and Vocational Training) and it was observed that 59 vacancies out of that were related to academic staff.
- (f) The total Gratuity amount had been paid without recover a sum of Rs.59,875 due from a person served as an Assistant Youth Services Officer in the National Youth Services Council who had vacated his post according to paragraph 07 in Chapter V of the Establishment Cord on unsatisfactory duty condition. Further, disciplinary action had not been taken against him according to the Section 29 and 31 in Capture XLVIII in Volume II of Establishment Cord regarding a loan amounting to Rs.50,000 had been obtained from a state bank during the period he was served in the office using a fictitious signature and an official seal of a Assistant Director without permission.

4.8 Vehicle Utilization

The following observations are made.

- (a) Even though it should be informed to the office of Comptroller General on or before 30 July 2018 after disposal before 30 June 2018 by following the instructions of Public Finance Circular No.2015/02 dated 10 July 2015, no actions had been taken accordingly on 07 vehicles were in disposable condition as at 31 December 2017.
- (b) The 06 vehicles owned/used by the Council as at 31 December 2017 were remained on repair condition during a long period and had been parked in the Council premises without relevant repairs.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

All public sector should act in according with the 2030 “Agenda” of Sustainable Development of the United Nations and the National Youth Services Council had not been aware how to act with the functions under their own scope.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

The following observations are made.

- (a) Pain works in District Office Gampaha – Contract value Rs.956,845.

- (i) Even though it was informed that shopping method were followed for the above contract, quotation call from registered contractors or any other acceptable method had not been followed when inviting quotations and selection method of contractor was doubt in audit.
 - (ii) A sum of Rs.191,369 had been paid without obtained an acceptable advance payment bond in terms of guideline 5.4.4 of the Procurement Guideline.
- (b) Paint works in Head Office Step-II – Contract Value Rs.8,692,720

It was pointed out that the shopping method were followed, no such method was followed and used of forge quotations were observed during physical verification in audit on 24 October 2017. Further, variances range from 20 per cent to 167 per cent were existed in 08 items mention in engineering estimate made for this contract. The attention had not been paid by the Procurement Committee and the Technical Evaluation Committee on this connection. Further, the contractor had vacated from construction works while the investigations were followed by audit and Council had not been obtained a performance bond from this contractor.

Further, the recommendation had been given by Audit and Management Committee existed at Ministry of National Policies and Economic Affairs on 28 December 2017 as payments on painting works were made on recommendation by the technical officer in other institution. However, no action had been taken on preparation of forge documents and follow-up the wrong procedures.

6.1.2 Weakness in Contracts Administration

The following observations are made.

- (a) Whereas the Nilwala Youth Park in Matara had been decided to construct according to the Cabinet decision No. 13/0502/639/014 dated 21 May 2013, the feasibility study had not been done in this connection. A sum totalling Rs.142,810,543 as compensation and interest for relevant land owners by the Ministry of Youth affairs and Skills Development and a sum of Rs. 7,657,349 on behalf of construction including consultancy fee as at 31 December 2014 by the National Youth Services Council had been disbursed. However, the construction had been vacated after 31 December 2014 due to funds were not received from the Ministry. That premise being in idle and wilderness were observed in physical verification was conducted on 16 October 2017.
- (b) According to the letter No. MNPEA/YAD/03/01 dated 28 March 2017 of the Secretary to the Ministry of National Policies and Economic Affairs, construct a hostel and a playground to facilitate short term accommodations to the youth who were enter to the town for various requirements had been proposed in land call Madangahawatta situated in Hedigama owned by the National Youth Services Council. Whereas a sum of Rs.2,400,601 had been paid for financial plan as at 31 December 2017 by the National Youth Services Council accordingly, the construction works had not been commenced up to 30 June 2018. Further, an action had been taken to selected other consultancy firm to future works by ceased the agreement of that consultancy firm due to legal matters were arise were informed to audit.

6.1.3 Delayed Projects

Whereas the time extensions had been given to 02 projects with agreed value of Rs.141,910,758 were planned to commence the constructions during the year 2016 and complete in year 2017, the construction works were not completed even as at 30 June 2018. Further, a sum totalling Rs.87,153,099 had been disbursed and the physical progress was 62 per cent as at 20 June 2018.

6.2 Budgetary Control

The following observations are made.

- (a) The variance ranging from 25 per cent to 93 per cent were observed between budgeted provisions and actual expenditure in 09 units of the Council and it was observed that the budget had not been made use of as an effective instrument of management control.
- (b) An overstated expenditure in 04 votes totalling Rs.32,683,429 and understated expenditure of Rs.315,055 in one vote had been shown under budget variance were observed in test check on expenditure summery and budget variances presented with the financial statements.

6.3 Tabling of Annual Reports

Even though the Annual Report should be tabled in Parliament within 150 days after ending of accounting year according to the 6.5.3 of Public Administration Circular No.PED/12 dated 02 June 2006, the Annual Report for the year 2016 had not been tabled in Parliament even by 31 July 2018.

6.4 Unresolved Audit Paragraphs

Necessary actions had not been taken even by the end of the year under review relating to the 05 material audit findings which had shown by the previous year Auditor General's Reports and 02 materially affected audit findings relating to financial and administrative affairs of the institute shown in the Auditor general's Report in the year 2015. Further, it has failed to submit a clear answer to the audit regarding actions to be taken on 04 audit observations.

07. Systems and Controls

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 systems and controls.

Areas of Systems and Controls

Observations

(a) Procurement	Not utilizing Government Money efficiently, effectively and economically by establishing a proper Procurement Process in a manner that complies with the Government Procurement Guidelines.
(b) Accounting	Not maintaining a proper accounting system in a manner that financial information are being accurately reported by following Sri Lanka Public Sector Accounting Standards.
(c) Personnel Administration	Making recruitments, promotions, training and development in compliance with the Approved Cadre and the Scheme of Recruitment and not preparing, reviewing and updating a Human Resource Plan in a manner that the objectives and purposes of the institution could be achieved.
(d) Conducting training courses	Not planning and implementing training programmes in a manner that the needs of the present youth could be fulfilled and recruitment of consultants for training programmes implemented by the institute.
(e) Control of Assets	Maintaining proper registers in a manner that confirms the security and the existence of the Assets of the Council and not taking necessary action in terms of Financial Regulations on the matters revealed by the Annual Boards of Survey.