

Transaction report of the Sri Lanka Youth Service Private Limited - 2022/2023

The operational activities of Sri Lanka Youth Service Private Limited (“the Company”) for the year ended 31 March 2023 were audited under my direction in accordance with the provisions of the National Audit Act, No. 19 of 2018, read in conjunction with Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations, which I consider should be reported to Parliament in accordance with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Responsibility of Management and Those Charged with Governance for the Presentation of Financial Statements

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company. In terms of section 16(2) of the said Act, the annual financial statements of every audited entity, together with the annual performance reports of such entities, shall be submitted to the Auditor General by the Chief Accounting Officer within such period as may be prescribed by the rules. In terms of section 38(1)(d) of the said Act, the Chief Accounting Officer shall ensure that the annual reports and other financial statements are prepared within the required time and in addition, the Chief Accounting Officer shall ensure that the annual reports of the audited entity are submitted to Parliament.

2. Report On Other Legal and Regulatory Requirements

The National Audit Act, No. 19 of 2018 and the Companies Act No. 7 of 2007 contain special provisions in relation to the following requirements.

In accordance with Section 150 (1) of the Companies Act No. 07 of 2007, the Board of Directors of the company must ensure that the person responsible for the preparation of the financial statements will certify the financial statements within 06 months from the balance sheet date.

2.1 Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although the financial statements are required to be submitted to the Auditor General within 60 days after the lapse of the financial year in terms of Section 16 (2) of the National Audit Act, No. 19 of 2018 and Section 6.6 of the Public Enterprises Circular No. 1/2021 dated 16 November 2021,	The financial statements for the year 2019/2020 have been submitted to the Audit and instructions were given to submit the financial statements related to the ensuing years to the audit once the audit of that year is completed.	Accounts should be submitted on the due date as per the Act.

the Company had not submitted the financial statements for the financial years of 2020/2021, 2021/2022, 2022/2023 and 2023/2024 for audit even by the date of this report.

2.2 Non-Compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules and Regulations, etc.	Non-compliance	Comments of the Management	Recommendations
(a) Section 41(2)(g) of the National Audit Act, No. 19 of 2018 and Section 4.2 of the Guidelines for Good Governance and Operational Manual introduced by the Public Enterprises Circular No. 01/2021 dated 16 November 2021	Although Audit and Management Committees should be established for a company registered or deemed to be registered under the Companies Act No. 07 of 2007 and in which fifty percent or more of its shares are held by the Government or a State Corporation or a Local Government Institution, the company had not taken action accordingly.	It was instructed to take steps to establish an Audit and Management Committee in future.	Action should be taken in terms of the Act.
(b) Section 5 (1) of the Gratuity Act, No. 12 of 1983	The payment of gratuity for 13 officers, who had terminated their services during the years of 2019-2023, had been delayed for 03 months to 36 months.	Due to the COVID-19 pandemic prevailed in the country, the payment of gratuity was delayed as the earning of income during those periods had been in the minimum level. However, this situation has been changed at present, and instructions have been given to make gratuity payments.	Payments of gratuity should be made as scheduled.

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| (c) | Sections 106, 113 and 173(3) of the Inland Revenue Act, No. 10 of 2006. | Income tax returns had not been submitted as scheduled for the year under review and for the previous 08 years. | It has been registered to pay income tax in order to rectify this at present, and instructions have been given to pay income tax in future. | The provisions of the Act should be followed. |
| (d) | Section 10 of the Value Added Tax (Amendment) Act, No. 14 of 2002 | Although it is required to register under the Value Added Tax Act when the turnover exceeding Rs. 03 million per quarter or Rs.12 million annually, the company had not registered under the Value Added Tax Act However, the turnover of the company per quarter was Rs. 50 million. | It has been currently registered for VAT and necessary instructions were given to make those payments within the accurate time period. | The provisions of the Act should be followed. |
| (e) | Financial Regulation 371(2)(b) as amended by the Public Finance Circular No. 2015/03 dated 14 July 2021. | Although only staff officers can be entitled ad hoc sub imprest up to a maximum of Rs. 100,000 at a time for any specific purpose, in contrary to this, the Company had given advances amounting to Rs. 1.3 million in 11 occasions in the year 2023. | At present, the granting of advances has been restricted. | Action should be taken as per the instructions of the circulars. |
| (f) | Guidelines for Good Governance and Operational Manual introduced by Public Enterprises Circular No. 1/2021 dated 16 November 2021 | | | |
| (i) | Guideline No. 2.3 | An annual budget estimate and a strategic plan for management with a short-term and long-term vision and an annual action plan including activities expected to be | An annual action plan has been prepared for the year 2024. | Action should be taken as per the guidelines. |

implemented in the ensuing financial year had not been prepared.

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| (ii) | Paragraph 6.6 of the Operational Manual | The Company had not taken action to prepare and table annual reports in Parliament as stipulated in the Operational Manual. | Instructions were given to prepare and table annual reports in Parliament in future. | Action should be taken as per the Operational Manual. |
| (iii) | Paragraph 6.7 of the Operational Manual | Even though annual board of surveys should be appointed and a verification of goods should be carried out for the verification of fixed assets and stores, the Company had not conducted a verification of goods since the year 2016. | The verification of goods was currently being conducted and instructions were given to submit the reports in future. | Action should be taken as per the Operational Manual. |
| (g) | Government Procurement Guidelines | | | |
| (i) | Paragraph 4.2.1 (a) | Although it is required to prepare a master procurement plan by the procurement entity, the Company had not done so. | Instructions were given to prepare a procurement plan and to implement the activities accordingly in future. | Action should be taken as per the Guidelines. |
| (ii) | 3.4.3 (a), (b), (c) and (d) | Although the registration of suppliers for the purchase of frequently used raw materials should be done, the company had not taken steps to register various suppliers during the year under review by incurring a cost of Rs. 6,931,458. | At present, a register for the registration of suppliers for various departments of the company is being maintained, and, goods or necessary materials are purchased for each department in accordance with that. | Action should be taken as per the Guidelines. |

2.3 Cash Management

Audit Observation	Comments of the Management	Recommendation
(a) The daily income of the restaurant as at 31 March 2023 amounting to Rs. 6,222,340 had not been banked even by the date of the audit, and there had been no such balance during the physical investigation carried out by the audit. Since this is observed during the audit as a misplacement of money, the Company had not taken necessary steps to identify the parties responsible for this misplacement and take necessary steps in that regard.	Although balances remained in that manner were indicated as cash in hand, instructions were given to rectify those balances.	A formal investigation should be conducted into the misplacement of funds and steps should be taken to strengthen the existing internal control system.

3. Operational Review

3.1 Performance

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although the main objectives of establishing this company were to raise the necessary funds to implement a programme to provide self-employment opportunities and to provide foreign employment opportunities to the youth in accordance with the Cabinet Decision No. 331 dated 16 September 1982, it was observed that at present, the company is operating 04 divisions namely the Youth Services Printing Press, Youth Services Security Unit, Youth Services Cleaning Unit and Youth Services Canteen in contrary to those objectives.	In accordance with the Cabinet Decision No. 331 dated 16 September 1982, a programme to provide self-employment opportunities has been implemented, and the activities of the Press of the Youth Services have been implemented as the initial step. Thereafter, other projects have been carried out as per the awareness of the Board of Directors.	The Cabinet Decision should be adapted for the current role of the Company.

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| (b) | Although the Company has registered as a foreign employment agency with the Bureau of Foreign Employment by paying a registration fee of Rs. 493,974 and a bank guarantee of Rs. 750,000 at various times from the year 2013 to 2023, any youth has not been provided with foreign employment under those licenses. Despite this, 3258 students had been recruited for foreign employment during the period of 2021 - 2023 and an income of Rs. 40,474,000 had been earned. | The Youth Services Foreign Employment Agency operates as a registered institution of the Bureau of Foreign Employment, and the Bureau of Foreign Employment organizes foreign employment fairs at the provincial level by advertising through public media in such a way that any youth can participate on open basis. | The activities of the Company should be carried out in a systematic manner. |
| (c) | Licenses had not been obtained from the relevant institutions for operating restaurants and providing cleaning services, and the company had registered providing security services on the license of an officer of the company by paying allowances to that officer. | The company has not yet obtained licenses to operate restaurants and cleaning services, and instructions have been given to obtain the license of an officer working in the company in relation to providing security services and pay an allowance for that. | Action should be taken formally to obtain licenses from the relevant institutions. |
| (d) | It was observed that instead of preparing separate income and expenditure analysis statements for the functions that are currently being maintained by the company such as cleaning, security, printing press and restaurant, 04 bank current accounts are being maintained for that purpose. | As per the instructions received at the Audit Management Committee meeting regarding this issue, statements of analyzing the income and expenditure for various departments are being prepared. | Action should be taken to prepare separate income and expenditure statements departments wise. |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The annual income of the printing press of the Company, which had been Rs. 17 million in the year 2018, had decreased to Rs. 2.6 million by the year 2023/2022. This had been a decrease of 15.2 percent as a percentage and the Management had not taken any action to increase the income of the printing press of the Company.	The printing machine was repaired again with high standards under the new Management in May 2024.	The attention of the Management should be paid to increase the income.
(b) Although vouchers, journal vouchers and receipts should be issued and entered into the accounting software with proper approval to record the transactions and events occurring in the Company, it was observed that transactions are being made without preparing journal vouchers with proper approval and without properly updating and maintaining the cash book and bank reconciliation statements.	At present, the cash book and bank reconciliation statements are being properly updated, and the recording of transactions is being entered into the accounting software with proper approvals.	A formal mechanism should be implemented for transactions and reports.
(c) Although the quantity provided had been stated in the submission of invoices for the food menu supplied by the company to various sections of the Council, only the total value had been stated without mentioning the unit price according to the quantity actually issued. Therefore, it was not possible to verify during the audit whether the invoice value was the actual value. Furthermore, it was observed that invoices were issued without calculating the cost.	Instructions were given to take the necessary measures to ensure that this is carried out correctly in future.	Action should be taken to monitor the transactions of the canteen.

3.3 Irregular Transactions

Audit Observation	Comments of the Management	Recommendation
(a) According to the daily food distribution list of the canteen related to the financial year 2023/2022, 10811 food parcels worth Rs.1,516,450 had been provided to the Media Unit and the Youth Society, and the Company had lost that income as the invoices had not been issued and money had not been collected from them. Furthermore, special food menu for breakfast, lunch and dinner, had been provided to two top management personnel of the Company from 23 May 2023 to 15 August 2023, without invoicing.	It was necessary to provide food without issuing invoices as per the instruction of the then Chairman and Managing Director.	The existing system should be streamlined.
(b) Although the National Youth Services Council had provided an amount of Rs.5,982,100 in July 2021 for the payment of arrears of salaries of the security officers of Youth Service Private Limited from February to December 2020, the said amount had not been used for the payment of arrears of salaries of the officers, and the amount had been used for the purchase of consumer goods for the canteen of the Company and to incurred the corporate administrative expenses.	Necessary instructions were given to make the relevant revisions in future.	Action should be taken to pay the money to the security officers promptly.

3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
It was observed that action had not been taken to appoint an Accountant for Youth Service Private Limited since 2013 and the post of Assistant Accountant has also been vacant since 03 June 2019. Further, It was observed during the audit that the failure to take action to appoint an accountant on the permanent basis for the Company has	At present, an officer, who had worked in the same institution by obtaining a permanent appointment, has been appointed to the post of Assistant Accountant.	Recruitment for the post of Accountant should be made in a formal manner according to the scheme of recruitment.

also resulted in the failure of the company to submit the final financial statements to audit on time.

3.5 Unrecognized Losses

Audit Observation	Comments of the Management	Recommendation
Due to the failure of the employer to pay the contributions payable on the due date in respect of an employee in contrary to Section 10 and Section 16 of the Employees' Provident Fund Act, No. 15 of 1958, an amount of Rs.91,000 had been paid as surcharge during the year under review.	The financial position of the Company is not good, and thus the payment of the Employees' Provident Fund on the due date has been delayed. It is expected to take action to pay the contributions to be paid on the due date in future and to minimize the surcharge.	The contribution related to the Employees' Provident Fund and Employees' Trust Fund should be remitted on the due date.