

1.1 Qualified Opinion

The audit of the financial statements of the of National Youth Services Council for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Council 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 Council.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

The Council is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under the following headings.

1.5.2 Non-compliances with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the Relevant Standard	Management Comment	Recommendation
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(a) As per paragraph 99 of Sri Lanka Public Sector Accounting Standards 01, all income and expenditure items identified during the period should be included in the profit or loss. However, a total sum of Rs.	Due to insufficient provisions allocated in 2018 and 2019, those expenditure could not be accounted for as accrued expenditure. These expenses will be	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

15,479,900 payable to the Sri Lanka Youth Services Pvt. Ltd, relevant to the year under review had not been accounted for and the total amount paid for the previous year amounted to Rs. 61,793,120 were accounted as expenditure in the year under review. Accordingly, the profit in the year under review amounted to Rs. 45,982,593 had become a loss of Rs. 330,627.

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| (b) | Due to failure in annually reviewing the useful life time of non-current assets in terms of Section 65 of the Sri Lanka Public Sector Accounting Standard No. 07, 03 items of assets valued for Rs. 941,356,738 had still been in use despite being fully depreciated by the end of the current year. Action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard No.03. | Action will be taken in due course to revalue the assets in terms of Sri Lanka Accounting Standard No. 07 and disclose the gross carrying amount in the accounts. | Action should be taken to prepare financial statements in accordance with Sri Lanka Public Sector Accounting Standards. |
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1.5.3 Accounting Policies

Audit Observation	Management Comment	Recommendation
In terms of paragraph 15 of the Sri Lanka Public Sector Accounting Standard 09, although inventories shall be valued at cost or net realizable value whichever is lower, the council had identified the ‘inventories valued at cost’ policy.	Valuation of year end inventories at cost or net realizable value, which ever is lower will be applied from the year 2020.	Inventory policy should be identified in accordance with the Sri Lanka Public Sector Accounting Standards.

1.5.4 Accounting Deficiencies

The following observations are made

	Audit Observation	Management Comment	Recommendation
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(a)	Even though the total value of work in progress of National Youth Services Council as at 31 December 2019 amounted to Rs.761,782,870 should be stated under the Property, plant and equipment in the Financial Position Statement, had been shown under the current assets. The total work done in buildings completed in 2018 amounted to Rs. 247,717,101 was included in that value.	Action will be taken to correct the balance of work in progress account shown as current assets and the un-paid final bill of building valued for Rs. 247,711,101 in 2020.	Assets should be accurately classified and stated in financial statements.
(b)	The value of 05 lands which were legally owned by the Council had not been assessed and included in the financial statements.	Assessment of the land where the Matara Southern Provincial Office and the District Office are located had been received. That value will be adjusted in the financial statements in the year 2020. Instructions have been given to the relevant officials to expedite the valuation of other lands as well.	Action should be taken to include value of the assets legally owned by the Council in the financial statements.
(c)	According to the paragraph 40 of the Sri Lanka Public Sector Accounting Standards 14 'the relative party disclosure in, even though the cumulative remuneration of the Chief Executive Officer should be disclosed, the annual allowances received by the Chairman of the Council during the year under	Action will be taken to disclose relevant information in accordance with the Accounting Standards No. 14 in the preparation of financial statements for the year 2020.	Required information in financial statements should be disclosed in accordance with the Sri Lanka Public Sector Accounting Standards.

review amounted to Rs. 200,000 and Rs. 75,000 for working as the Chairman of the Sri Lanka Youth Services Pvt Ltd and as the Chairman of the Sri Lanka National Youth Services Co-operative Society Limited respectively had not been disclosed in the financial statements.

1.5.5 Un-reconciled Control Account and Records

Subject	Value as per the financial Statement	Value as per the corresponding records	Difference	Management Comment	Recommendation
Credit balance payable to Sri Lanka Youth Services (Pvt) Ltd.	Rs.110,000	Rs. 49,229,360	Rs. 49,119,360	The balance shown as creditors, amounted to Rs. 110,000 was an accounting error accounted by mistake in the year 2015 and it has now been corrected as previous year adjustment in 2020.	Loan balances payable to Sri Lanka Youth Services Pvt. Ltd. should be checked and corrected with the relevant company information.

1.5.6 Consolidation

Audit Observation	Management Comment	Recommendation
Even though Sri Lanka Youth Services (Pvt) Limited had been established with 98 per cent of its shares being owned by the National Youth Services Council in the year 1981, the consolidated financial statements had not been submitted by the Council for audit	Sri Lanka Youth Services (Pvt) Ltd has so far prepared accounts only up to 31.12.2017. Management has already been informed to prepare the required	Management was continuously informed of the need to prepare consolidated financial statements and action should be taken to focus on this matter

till the year under review. Also, the attention of the Council had not been brought on failing to prepare financial statements by the Company since 2017. accounts so that the accounts of the Youth Services Company will be updated in the future. and prepare consolidated financial statements

1.6 Accounts Receivables and Payables

1.6.1 Accounts Payable

Audit Observation	Management Comment	Recommendation
Action had not been taken to settle the balances remained over 02 years under various creditors total amounted to Rs. 1,986,304.	A sum of Rs. 269,972 had been paid to Youth Club Federation so far and the balance will be settled in due course.	Action should be taken to settle long standing loan balances.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 5.2.1 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Without notifying to the appointing authority to fill vacancies in staff grade posts without delay by the Head of Department, 21 District Youth Service Officers and Financial Officer have been appointed on covering duties basis since the year 2017 for 28 vacant posts of Assistant Directors in the Council since 2011.	A letter has been submitted to obtain the approval of the Secretary to the Ministry to recruit for the vacancies. Relevant vacancies are expected to be filled soon upon the approval is received.	As per the circular instructions of the Management Services Department, action should be taken to recruit suitable officers for the vacant posts.

- (b) Paragraph 8.2.2 of the Public Enterprises Circular No. PED / 12 dated 02 June 2003 A sum of Rs. 10,157,722 had been invested in fixed deposits without the approval of the Treasury by the National Youth Centers Sports Club affiliated to the National Youth Services Council as on 31 December 2019. Due to the administrative and financial activities of the sports club located in the National Youth Services Council premises has not carried out properly, action is being taken to restructure the activities of the sports club. Investment of funds should be done in accordance with the provisions in the circular.
- (c) Section 2.8.4 (d) of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka Contrary to the procurement guidelines, the Technical Evaluation Committee appointed for the procurement of the exhibition stalls and the main stage of the 2019 “Yovun Pura” Program consisted only of officers serving in the Council. Noted to give instructions to follow the guidelines in the Procurement Guidelines at the appointment of Technical Evaluation Committees for current national programs and high value purchases. Members of the Technical Evaluation Committee should be appointed in accordance with the Procurement Guidelines.

2. Financial Review

Financial Results

The operating result of the year under review had been a deficit of Rs. 330,627,000 as compared with the corresponding deficit of Rs. 109,356,000 for the preceding year, thus observing a deterioration of Rs. 221,271,000 in the financial result. Although the annual revenue had increased by Rs. 29,268,000, increase in operating expenses by Rs. 240,588,000 had mainly attributed this deterioration.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Management Comment	Recommendation
<p>The National Youth Services Council had planned to organize “Yovun pura” program under five main objectives including timely management of the immediate needs and wants of the youth of Sri Lanka on 26 March 2020 at the public ground in Debarawewa. But contrary to that, a total sum of Rs. 40,593,305 had been incurred by giving priority for showy and fun features such as, construction of 03 pandals, conducting night music concerts for 05 days, and construction of temporary cinema halls which has no direct relation to the objectives of the Youth Program during the year under review.</p>	<p>The reasons for incurring such expenses were conducting the program in an area of 110 acres, giving of souvenirs at international events, the participation of the Prime Minister to increase the enthusiasm of the youth, due to the participation of large number of public representatives and top level government officials, and due to the participation of foreign youth and to provide them with the necessary facilities.</p>	<p>The Council should focus on the economy and productivity of the implementation of programs and make expenditures.</p>

3.2 Management Inefficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
<p>(a) Even though the approved estimated cost for the “Yovunpura” programme held in the year 2019 was Rs. 200 million, a sum of Rs. 53,992,874 had been spent exceeding that thereon. The approval had been granted to</p>	<p>It has been informed that a formal inquiry will be conducted into the matters in the audit query and necessary action will be taken.</p>	<p>Necessary action should be taken to check whether any loss has been incurred to the Council in this matter and if such a loss has occurred recover that loss.</p>

procure of renting out of two storage domes required for this program out of the procurement process. Also, informing that these domes were used for a period of 8 to 10 days in excess of the number of days ordered, a total sum of Rs. 2,227,400 had been overpaid.

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| <p>(b) From 90 officers who are using the official quarters of the Council, house rent, charges for using water and electricity had not been recovered from the salary of the relevant officer in terms of sub-sections 5.4, 5.4.1, 5.5, 5.7 and 5.8 of Chapter XIX of the Establishments Code and Public Administration Circular No. 04/2016 dated 26 August 2016. According to the calculations made on the basis of the information provided to the audit, house rent amounted to a Rs. 1,878,238 had to be recovered from 46 officers alone during the year under review.</p> | <p>As the progress regarding the collection of money has not been successful, various issues and questions are being raised by the officers in this regard and it is believed that an explanation should be made as to the facilities and conditions available in the relevant quarters as per the provisions of the Establishments Code and observed that a more reasonable decision should be taken by referring it to the relevant committee.</p> | <p>Prompt action should be taken in regarding the recovery of dues from the officers residing in the official quarters of the council as per the Establishments Code and other related issues.</p> |
| <p>(c) A sports club is maintained in the Council under the Chairmanship of the Chairman of the National Youth Services</p> | <p>As the administrative and financial activities of the sports club, run in the National Youth Services Council premises, are not being carried out</p> | <p>Prompt action should be taken to streamline the administration activities of the sports club.</p> |

Council and employing a permanent salaried officer of the Council and the resources of the Council were utilized for its training without any payment. properly, action is being taken to restructure the activities of the sports club.

During the year under review a total sum of Rs. 2,621,130 had been spent for sports Instructors and for a Council officer for the Sports Club activities from the funds of the Council. A total sum of Rs. 5,518,150 should have been recovered as membership fee for the year by the sports club as at end of the year. It was observed that even though fixed deposits amounted to Rs. 10,157,722 and savings amounted to Rs. 7,104,863 were available at the end of the year under review, its financial affairs were conducted without the control of the Council.

- (d) Even though it was intended to develop a policy on course fees as per the detailed action plan of the National Youth Services Council, no specific policy on course fees had been introduced even by the end of the year 2019. Courses were started and implemented at different rates for the same course Full time courses, part time courses and short term courses implemented by the National Youth Services Council will be carried out independently from the second term of 2020 and drafted to implement the specific number of courses at specific rates and action is being taken to implement from the A systematic mechanism should be implemented on charging course fees.

operating in the training centers under the Council. second semester of 2020.

- (e) According to the detailed action plan of the National Youth Services Council, although a sum of Rs. 33.6 million had been allocated to pay Rs. 4.8 million each per annum for 100 less privileged students from the year 2014 to year 2020, this program had not been implemented even by 31 December 2019. As per the Action Plan 2014-2020 even though the Skills Sector Development Program has planned to implement to provide financial assistance to trainees in need of financial assistance, so far no provision has been made to the National Youth Services Council through the Skills Sector Development Program. A program should be implemented to direct the less privileged youth into the field of vocational training.
- (f) According to the action plan prepared by the Council under the Skills Sector Development Program, a sum of Rs. 611 million had been allocated for modification of 10 training centers to additionally produce 1700 trainees. Even though 06 centers have been modified at a cost of Rs. 428 million by the end of the year under review, the modification works of three training centers had been suspended halfway after incurred of Rs. 165.2 million due to the contractor's weaknesses and slow progress of constructions. Even though it was expected to modify 10 training centers as per the detailed action plan, based on the financial provisions of the Skills Sector Development Program by the National Youth Services Council, modification works were carried out only in 6 centers. Further, the modification works of 3 training centers was completed and courses were started. Necessary action should be taken to rectify the weak administrative situation regarding construction contracts and those works should be carried out with proper supervision.

3.3 Operational Inefficiencies

The following observations are made.

	Audit Observation	Management Comment	Recommendation
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(a)	The Council had planned to initiate 1,100 youth labor community development projects in 2018 and complete them by 15 November 2018. Although a sum of Rs. 206,477,640 had been incurred in the years 2018 and 2019 for these projects, 185 projects had not been implemented and works of 471 projects had not been completed as of 31 July 2019.	Even though 471 projects have been mentioned as uncompleted projects, this includes 185 unimplemented projects in the 1100 projects which were not implemented. Further, only Rs. 50 million had been released as on 31 August 2018 and due to delays in releasing financial provision for the implementation of projects in 2018 there had been a delay in launching selected projects.	The management attention should be paid on the proper planning and implementation of special projects implemented by the Council under proper supervision.
(b)	According to the progress report dated 06 June 2019 submitted by the Special Projects Division of the Council, 3,000 youth labor community development projects had been implemented and a sum Rs. 406,843,820 had been incurred thereon, in the year 2017. Out of these, 66 projects had not been implemented and out of the 206 uncompleted projects, 47 had physical progress of 75 percent or less.	It was observed that it had stopped due to the lack of proper community contribution to the youth society, delay in obtaining physical and financial resources and natural disaster situation. Relevant divisions are being directed to take disciplinary action against officers who are reported to be inactive due to inefficiency or fraudulent activities of the officers.	Plans should be prepared and implemented under proper supervision to achieve the objective of initiating special projects.

3.4 Funds Under Utilization

Audit Observation	Management Comment	Recommendation
As per the 2019 Annual Action Plan of the National Youth Services Council, a sum of Rs. 70.10 million provision had been allocated for the programs planned to be implemented under the Sectoral Skills Development Program. According to the progress report dated 31December 2019, Rs. 26.60 million or 38 per cent had not been spent for the activities in the plan.	According to the 2019 Annual Action Plan although a sum of Rs. 70.10 million had been provided, approved provision could not be utilized due to non-completion of construction of training centers.	A proper mechanism should be implemented to make the better use of the funds received by the Council under various projects and programs.

3.5 Ideal or Under-Utilized Property, Plant and Machinery

The following observations are made.

Audit Observation	Management Comment	Recommendation
(a) Out of Rs. 1,998,556 given by the Sabaragamuwa Provincial Head Office for purchasing of culinary equipment to Batangala Training Center, bakery course equipment worth of Rs. 998,771 had been procured without formal approval. Bid calling and awarding of contract letters were sent contrary to the paragraphs 2.8.5, 3.4.3, 3.4.4, 5.3.7 (a) and 6.9.1 (a) of the Procurement Guidelines. Also, there was no formal agreement for this procurement and the goods were delivered to the center 38 days after	The culinary equipment provided to the Batangala Training Center was transferred to the Maharagama Youth Center as the relevant bakery course was not operation at that center. Accordingly, would like to point out that these equipment are being utilized effectively at present.	The requirements of the goods should be accurately identified and the guidelines should be complied at the purchasing by the provincial offices.

the date mentioned in the receipt. Furthermore, due to the fact that the courses had not commenced even till the date of audit of 03 October 2019, the goods remained idle for a period of 09 months.

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| <p>(b) As per the requirement mentioned in paragraph 04 of the Public Administration Circular No. 03/2017 dated 19th April 2017, time register machines were not installed in 28 training centers and offices of the Council. Out of 56 machines installed in training centers at a cost of Rs. 2,467,298 in the year 2013, 53 machines were out of order and the relevant cost had become an ideal expenditure.</p> | <p>The relevant supplier had been informed to repair existing inactive machines and to include software, to resolve existing technical issues with the software, and to install the un-installed machines and it is planned to carry out such activities at the provincial level. Further, action had been taken to obtain a performance guarantee on the value of the work to be accomplished in this procurement.</p> | <p>Action should be taken to comply with the relevant circular provisions and the management should pay attention to the malfunction of the installed machinery.</p> |
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3.6 Procurement Management

Audit Observation	Management Comment	Recommendation
<p>Even though the Sabaragamuwa Provincial Office of the National Youth Services Council was placed an order on 31December 2018 to purchase 922,870 worth of training equipment, as per the receipt of the goods the goods were received to the stores on 20 December, i.e. before the date of the order.</p>	<p>No comments were submitted by the management.</p>	<p>An inquiry should be carried out regarding this transaction.</p>

3.7 Human Resource Management

The following observations are made.

	Audit Observation	Management Comment	Recommendation
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(a)	Eleven Youth Service Officers had not been appointed to coordinate youth affairs in 11 Divisional Secretariat Divisions by the end of the year under review. But contrary to the provisions of the approved recruitment scheme, 173 youth service officers belonging to various grades had been deployed for various duties at the Head Office, Training Centers and Regional Offices by paying approved monthly allowance of Rs. 300.00 for field officers.	A letter had been Submitted to the Secretary to the Ministry of Youth and Sports on 16.11.2020 seeking approval for recruitment for the vacancies as it is sufficient to obtain the approval of the Secretary to the Ministry to fill the vacancies as per the instructions given in the Management Services Circular DMS / CIR / 2020 dated 26.10.2020. Accordingly, it is expected to fill the relevant vacancies as soon as the approval is received.	Action should be taken to deploy those officers in the duties relevant to the youth service officers. Also, vacancies for Youth Affairs Coordinating Officers should be filled.
(b)	According to the detailed action plan, although it is planned to increase the academic staff to 80 percent by recruiting 55 instructors for the training centers under the Skills Sector Development Program of the National Youth Services Council, 34 consultants had been recruited on contract basis by the end of the year under review.	According to the approved cadre of the National Youth Services Council, it was planned to recruit 65 instructors for the year 2019. 34 Instructors had been recruited to the Vocational Training Division during the year under review. However, the number of instructors in the approved cadre of the National Youth Services Council had reached to 82 percent by 31 August 2020.	Action should be taken to appoint an adequate and qualified academic staff for the training requirements.

4. Accountability and good Governance

4.1 Sustainable Development Goals

Audit Observation	Management Comment	Recommendation
Every public institution should comply with “2030 Agenda” on sustainable development adopted by the United Nations. The National Youth Services Council had not taken measures to identify the Sustainable Development Goals and targets under their scope.	Relevant awareness programs have been carried out so far. The questionnaire on preparation for implementation of Sustainable Development Goals by Government Institutions had been completed and sent on 04.06.2018.	Action should be taken in compliance with the Circular No. NP/SP/SDG/17 dated 14 August 2017 of Ministry of National Policies and Economic Affairs