

**1.1 Qualified Opinion**  
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The audit of the financial statements of the of National Youth Services Council for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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**  
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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.**  
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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

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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 scepticism 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 Audit Observations on the preparation of Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements**

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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 heading.

### **1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards.**

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The following observations are made.

<b>Non-compliance with reference to the relevant standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) In terms of Paragraph 99 of Sri Lanka Public Sector Accounting Standard 01, all items of revenue and expenses recognized in a period shall be included in profit or loss. Nevertheless, security expenses totaling Rs. 6,790,800 payable to the Sri Lanka Youth Services ( Pvt.) Limited relating to the year under review had not been accounted for as expenses for the year.	As the value of security expenses payable to the Sri Lanka Youth Services ( Pvt.) Limited could not be precisely recognized in the preparation of accounts; it could not be accounted for as accrued expenditure.	In the preparation of accounts, expenditure relevant to the year should be brought to account in terms of Sri Lanka Public Sector Accounting Standards.

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| (b) | <p>Since useful life of non-current assets had not been reviewed annually in terms of Paragraph 65 of Sri Lanka Public Sector Accounting Standard 07, three types of assets costing Rs. 1,433,003,346 were further in use despite being fully depreciated by the end of the year under review. Accordingly, no action had been taken to revise the error in the estimate in terms of Sri Lanka Public Sector Accounting Standard 07.</p> | <p>Action will be taken to revalue the assets and disclose their carried amount in terms of Sri Lanka Public Sector Accounting Standard 07.</p> | <p>Financial Statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standard.</p> |
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### 1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
<p>(a) Buildings worth Rs. 17,934,286 used on completion of the constructions by 2019 had been accounted for as the work-in-progress and as such, value of building and the work-in-progress had been understated and overstated by that amount in the financial statements of the year under review respectively. Likewise, depreciations of that building for the year under review amounting to Rs. 896,714 had not been brought to account.</p>	<p>Action will be taken to correctly state this in the year 2021.</p>	<p>Assets should be correctly classified and stated in the financial statements.</p>
<p>(b) Value of 05 lands containing 04 acres and 2.25 perches in extent and lawfully owned by the Council had not been assessed and brought to account.</p>	<p>Valuation report on the lands situated in the Uva Province Office and the Badulla offices has been received at present. Accordingly, action has been taken to account for that value in the year 2021. Valuation reports for the remaining lands will be taken and brought to account in the year 2021.</p>	<p>Assets which are lawfully owned by the Council should be assessed and included in the financial statements.</p>

- (c) Even though Rs. 185,808,765 had been stated as a cash flow generated from work-in-progress in the cash flow statement, the actual amount utilized for the work-in-progress was Rs. 149,929,102. Accordingly, a difference of Rs. 335,737,868 was observed relating to the work-in-progress and that difference had been erroneously stated in the cash flow statement as an amount utilized for the purchase of fixed assets during the year.
- In the preparation of cash flow statement in indirect method, all amounts other than non-financial allocations are taken into account. This adjustment has been made accordingly.
- Cash flow statement should be prepared taking into consideration the receipts and payments made in cash during the year.
- (d) A sum of Rs. 2,293,734 paid to reserve the Sugathadasa Stadium for the conduct of 31<sup>st</sup> National Youth Sports Festival scheduled to be held in November 2019 should have been brought to account as payables due to not conducting the relevant sport festival. Nevertheless, it had been brought to account as an expenditure of the year without any confirmation thereon.
- Action will be taken to set off the payment hitherto made against the expenditure expected to be incurred for the 33<sup>rd</sup> National Youth Sports Festival due to be held in the year 2021 or to recover this amount in case this sport festival won't be held in this venue.
- If it is expected to recover or set off this amount, action should be taken to state it as payables in the financial statements instead of writing off of the expenditure.

#### 1.5.4 Unreconciled Control Account or Reports

Item	Value as per the financial statements Rs.	Value as per the corresponding reports Rs.	Difference Rs.	Comment of the Management	Recommendation
Creditors balance to be paid to the Lanka Youth Services (Pvt.) Limited	836,790	79,713,942	78,877,152	An amount of Rs. 836,790.00 only could be recognized in the preparation of accounts. Sri Lanka Youth Services (Pvt.) Limited has been instructed to duly submit relevant bills in order to settle the payments to be made from the year 2020.	The amount payable to the Sri Lanka Youth Services (Pvt.) Limited should be correctly identified and brought to account.

### 1.5.5 Consolidation

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Although Sri Lanka Youth Services (Pvt.) Limited had been established in the year 1991 with 98 per cent shares to the National Youth Council, no consolidated financial statements had been prepared and the company had not prepared and presented the financial statements to the audit since year 2017.	Sri Lanka Youth Services (Pvt.) Limited has prepared accounts up to the year 2017 only. As a result, it has not been possible to consolidate accounts of the Youth Services (Pvt.) Limited to the financial statements prepared by the National Youth Council for the year 2019. The management has already been instructed to prepare necessary accounts so as to update accounts of the Youth Services (Pvt.) Limited in the future.	Action should be taken to consolidate financial information of the Sri Lanka Youth Services (Pvt.) Limited in the preparation of financial statements of the Youth Council and submit the consolidated financial statements.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Payables

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The Council had not taken adequate steps to settle the balance totalling Rs. 921,814 continued to exist for over 05 years and sundry creditors balance of Rs. 1,873,036 remained for over 03 years in the Contract Retention Account as at 31 December 2020.	Due to lack of money for releasing retentions relating to the Nilwala Youth Garden Construction contract and the Punarin construction contract, the balance could not be settled.	Action should be taken to settle the balances continued to exist over a long period.

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

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Public Enterprises Department Circular No.95 dated 14 June 1999.	Although the benefits specifically approved by the Cabinet, Ministry of Public Administration or the Treasury only may be paid to the employees with the approval of the Boards of Governors, on the contrary, sums totalling Rs. 228,900 had been paid to the five officials in respect of discharging functions of the Sport Club from January 2019 to January 2020.	These expenses had been incurred by then officers of the Sport Club and after taking in to consideration the matter, a committee has been appointed to carry out restructuring activities. Steps will be taken to make necessary amendments on the receipt of committee recommendations	Action should be taken in accordance with the Circular.

**2. Financial Review**

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**2.1 Financial Results**

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Operating results of the year under review was a deficit of Rs. 198,007,000 as compared with the corresponding deficit of Rs. 330,627,000, thus observing an improvement of Rs. 132,620,000 in the financial statements. This improvement was mainly due to decrease in the youth development expenses and the establishments and administrative expenses.

**3. Operating Review**

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**3.1 Uneconomic Transactions**

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
----- According to the board of survey report, recommendations had been made to discard, as at 31 December of the year under review, 268,000 youth information sheets costing Rs. 1,822,400 printed in the year 2017. No action had been taken to identify the officers who should be held responsible for failure to use public funds economically and effectively by properly identifying the necessity and recover the loss incurred by the Government in terms of Financial Regulation 156.	----- It is informed that an inspection will be carried out by the Internal Audit Division on the youth information sheets printed in the year 2017 and further action will be taken accordingly.	----- Financial Regulations should be adhered to.

**3.2 Management Inefficiencies**

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
----- Ownership of 40 lands occupied by the Council and disclosed in the Financial Statements of the year under review had not been taken over even up to the end of the year under review.	----- Activities relating to taking over of ownership of the 40 lands are in progress and expediting the relevant activities seems extremely difficult. However, it is further notified that action will be taken to continue the process in accordance with the existing law of the Government.	----- Ownership of the lands occupied by the Council should be taken over.

### 3.3 Underutilization of Funds

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Funds amounting to Rs. 4,959,409 granted by 04 institutions from the year 2015 had not been used for the relevant purpose even as at 31 December of the year under review.	Although it is stated as the balances in the financial statements, these funds are not really in existence. Action will be taken to credit it to the government Revenue by forwarding it to the Board of Directors of the National Youth Council in the future.	Provisions made should be used for the relevant purpose.

### 3.4 Delays in Projects or Capital Works

The following observations are made..

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Although Rs. 2,613,779 had been spent for preparation of plans for 02 construction projects in the year 2017, those constructions had not been initiated even by 31 December 2020.	Due to not receiving necessary provisions to date, constructions could not be commenced. This will be carried out by giving priority once the provisions are made by the Treasury.	Attention of the Management should be focused to use in maximum scale the provisions granted to the Council for projects.
(b) Two projects for which Rs. 84,216,614 had been spent under the Sectoral Skills Development Programme by the end of the year under review, had been discontinued from August 2018 due to delaying works by the contractor and no works of those constructions had been resumed.	Due to not providing remaining funds by the Sectoral Development Project, remaining constructions of the Love Lane and Dambulla Training Centre could not be resumed. This work will be completed by giving priority in the future.	Management should pay attention to complete projects without delay under a proper supervision.
(c) A sum of Rs.372.75 million had been spent for ongoing 06 construction projects by the end of the year under review. Although a	These projects have been commenced in the year 2017 and 2018. Due to failure to settle the bills of these projects submitted from September 2018 and obstacles caused by	Plans should be prepared and implemented under a proper supervision so as to achieve objectives of the project. Similarly, management's attention



period of more than one year had elapsed from the scheduled date for the completion of work according to the agreements entered into on the constructions of the projects, physical progress of the projects were observed as low as 13 per cent to 61 per cent.

the Covid 19 pandemic, expected progress could not be achieved. Due to failure to pay Rs.20.95 million relating to the contract of the renovation of Chilaw Training Building, this contract has been temporarily discontinued as per the agreement.

should be focused on completion of the project during the contracted period.

### 3.5 Deficiencies in the Contract Administration

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
<p>(a) According to the payment method indicated in the Bill of Quantity relevant to 16 construction contracts implemented by the National Youth Council, it has been stated that “ On the submission of relevant documents, payments will be made by adding 5 per cent to the actual expenditure incurred on obtaining insurance coverage, securities and bonds”. Nevertheless, sums totalling Rs. 1,147,245 had been excessively paid for insurance coverage of the labourers of the contractor. Further, sums totalling Rs. 4,253,750.</p>	<p>Only the relevant price of the item as agreed by the two parties through the contract agreements of each project has been paid. In order to further confirm the accuracy of the payment method, a letter was referred to the Director of Construction Industry Development Authority on 29.03.2021.</p>	<p>Action should be taken to make payments in accordance with the payment method stated in the Bill of Quantity.</p>
<p>(b) Since the consultancy service relevant to the construction of swimming pool of the Maharagama Youth Services Centre</p>	<p>Due to technical risk cropped up owing to not accepting the deficiencies pointed out by the Technical Evaluation Committee with regard to the plans, estimates and tender documents</p>	<p>Management should focus its attention on the weaknesses of the construction contract administration and take steps to correct them.</p>

completed at a cost of Rs. 62,942,058 (except for the final payment) had not been carried out from the consultancy firm selected at first, a sum of Rs.2,870,400 had to be excessively paid to obtain consultancy service from another consultancy firm. prepared by the first consultancy firm, it was withdrawn according to Section 2:10 in standard conditions of engagement part I & II – ICTAD CONSULT 01 stated in Consultancy Services Guidelines and payments were made for the services rendered up to then as per Section 2:10:5 of the above Guidelines.

### 3.6 Human Resource Management

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Although there was an approved post for a Civil Engineer in the institute, action had not been taken to recruit a qualified officer for that post. Accordingly, the Council had paid sums totalling Rs. 36,182,728 to the consultation firms for supervision and planning of 20 construction projects carried out during the period from 2017 to 2020, whereas action had not been taken to complete constructions within the prescribed period.	Action is being taken to fill the vacant post of Civil Engineer at present.	Action should be taken to recruit qualified officers for approved posts.
(b) Although the approved cadre was 1449 there were 294 vacancies as at that date of which 35 posts of the staff grade remained vacant for over 03 years.	Management had not made comments.	Action should be taken to recruit qualified officers for approved posts.

#### 4. **Accountability and Good Governance**

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##### 4.1 **Sustainable Development Goals**

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Every public institution should act in compliance with the “Sustainable Development Agenda-2030” and the National Youth Council had not taken steps to recognize the sustainable development goals coming under its purview.	Programmes of the National Youth Council for the year 2021 are in progress recognizing sustainable development goals and targets.	Action should be taken in accordance with Circular No. NP/SP/SDG/17 dated 14 August 2017 of the Ministry of National Policies and Economic Affairs.