

REPORT OF THE AUDITOR-GENERAL ON NATIONAL YOUTH SERVICE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Youth Service set out on pages 1 to 18, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Youth Service as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the National Youth Service Act, 2018 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 10 to the financial statements reflects a balance of Kshs.3,425,066,950 in respect of cash and cash equivalents as at 30 June, 2020. Analysis revealed the following unsatisfactory matters;

1.1 Unconfirmed Reconciling Items in the Development Bank Account

Note 10 to the financial statements reflects a balance of Kshs.311,286,195 in the development account. However, examination of the respective bank reconciliation statements revealed receipts in cashbook not yet recorded in bank statement amount of Kshs.10,340,331 whose dates of clearance in bank could not be confirmed as the bank statements or bank reconciliation statements for the month of July, 2020 were not provided for audit.

1.2 Inaccuracies in the KCB National Youth Service Bank Account Balance

Note 10 to the financial statements reflects Nil balance relating to the KCB National Service account as at 30 June, 2020. However, examination of the bank reconciliation, the cash book and bank statements revealed stale cheques amounting to Kshs.30,971,159 issued between September and November, 2019.

Consequently, the accuracy of the bank reconciliations for the development account and the KCB National Service account could not be confirmed.

2.0 Unconfirmed Opening Balances

The National Youth Service was established as a state corporation through the National Youth Service Act, 2018. The service took over the assets and liabilities of the then department of National Youth Service under the State Department for Youth. Management did not provide handing over reports and other documents in support of the opening balances for the assets and liabilities.

Consequently, the accuracy and completeness of the reported opening balances for assets and liabilities in the statement of financial position could not be confirmed.

3.0 Unsupported Expenditure on Fuel, Oil and Lubricants

The statement of financial performance reflects an amount of Kshs.14,963,508,572 in relation to use of goods and services. Included in the amount is Kshs.379,715,177 incurred on fuel, oil and lubricants. However, examination of sampled payment vouchers on provision of fuel amounting to Kshs.49,128,545 revealed they were unsupported by way of signed contract agreement between the Service and the suppliers. This was contrary to the provisions of Section 104(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, validity of the expenditure on fuel, oil and lubricants of Kshs.379,715,177 for the year ended 30 June, 2019 could not be confirmed.

4.0 Unsupported Expenditure on Grants and Subsidies

The statement of financial performance and as disclosed in Note 4 to the financial statements reflects expenditure of Kshs.161,172,986 in respect of grants and subsidies. This balance is comprised of payments of Kshs.9,999,100, Kshs.6,501,593, Kshs.79,594,355 and Kshs.65,077,937 in respect of FAO (Desert Locust Control), MOH (Covid-19 Mitigation), KPA (Ports Rehabilitation) and KRC (Railway Rehabilitation) respectively. However, ledgers in support of the amounts were not provided for audit.

Consequently, the accuracy, completeness and validity of the expenditure of Kshs.161,172,986 on grants and subsidies for the year ended 30 June, 2020 could not be confirmed.

5.0 Misclassification of Revenue from Non-Exchange Transactions

The statement of financial performance reflects revenues from non-exchange transactions in form of transfers from Ministries, Departments and Agencies (MDA's) amounting to Kshs.162,888,086 that comprised of Kshs.60,028,248, Kshs.75,957,534, Kshs.10,000,000 and Kshs.16,902,303 received from Kenya Ports Authority, Kenya Railways, Ministry of Health, and Food and Agricultural Organization (FAO) respectively. However, Management did not provide for audit supporting documents indicating the nature of services provided to the institutions, applicable rates and duration of contracts.

In addition, revenue received from the Kenya Ports Authority and the Kenya Railways of Kshs.60,028,248 and Kshs.75,957,534 respectively were wrongly classified as revenue from non-exchange transactions instead of revenue from exchange transactions.

Consequently, the accuracy, completeness and fair statement of the revenue from non-exchange transactions of Kshs.162,888,086 could not be confirmed.

6.0 Irregular Payment of Gratuity to the Former Director General – National Youth Service

The statement of financial performance reflects an amount of Kshs.1,094,972,809 in respect of employees' costs. Included in the amount is Kshs.7,531,909 paid to the former Director General - National Youth Service in form of gratuity. The payment was made despite the existence of a court case against the former Director General.

Consequently, the validity of the expenditure of Kshs.7,531,909 paid to the former Director General - National Youth Service in form of gratuity could not be confirmed.

7.0 Payment of Taskforce Allowance

The statement of financial performance and as disclosed in Note 4 to the financial statements reflects a figure of Kshs.70,767,049 in respect of hospitality supplies and services. Included in this amount is Kshs.2,505,000 paid as taskforce allowances to eighteen (18) member National Youth Service Multi Agency Pending Bills Verification Committee constituted by the Cabinet Secretary and Kshs.2,516,000 paid in form of task force allowances to members of staff engaged in interviews. However, the payments were not subjected to Pay As You Earn (PAYE) as required under the provisions of the Income Tax Act and the Employers Guide to Pay as You Earn Part 1 resulting to an overpayment of Kshs.751,500 to the member National Youth Service Multi Agency Pending Bills Verification Committee and Kshs.754,800 to members of staff engaged in interviews.

Consequently, the accuracy and validity of the reported expenditure on hospitality supplies and services of Kshs.70,767,049 for the year ended 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Youth Service Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) on the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Construction of VIP Stand at National Youth Service Parade Grounds - Gilgil

The service entered into a contract for the construction of VIP Stand at Gilgil College at a contract cost of Kshs.14,661,292. The tender document stated that the contract period was fifty-two (52) weeks whereas the State Department of Public Works approved a contract period of twenty-five (25) days from 29 January, 2020 to 30 July, 2020. Physical verification conducted on 30 September, 2020 revealed that the contractor was not on site and the works were incomplete despite of the full contract price.

In addition, the Service made payment of Kshs.14,661,292 during the year for the contract. However, examination of Bills of Quantities revealed that the quantities in relation to structural Steel frame and roofing were scaled downwards to Kshs.3,286,550 from Kshs.3,324,350 and Kshs.1,641,400 from Kshs.3,276,600 respectively. This resulted in estimated costs of Kshs.12,720,612. The payment did not take into consideration the downwards variations.

Consequently, value for money has not been realised due to the delayed implementation of the project and failure to consider the downward variations in contract specifications.

2.0 Irregular Appointment of Procurement Specialist

The Service paid Kshs.6,775,680 to a procurement consultant hired on a two-year contract. The procurement specialist was appointed by the Public Service Commission as a supernumerary post of Advisor, Procurement/Supplies chain Management (Job Group 'T') and made the appointment. However, the roles set out by the Cabinet Secretary are similar to those carried out by the Senior Deputy Director/Head Supply Chain Management at the Service. Further, review of the Integrated Payroll and Personnel Database (IPPD) Data capture Sheet revealed that the officer was earning a monthly basic salary Kshs.322,040 which was above the maximum threshold as recommended by the Public Service Commission of Kshs.315,700.

Consequently, the service did not obtain value for money on the recruitment due to the duplication of duties.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material

misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Service's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of service and using the applicable basis of accounting unless Management is aware of the intention to terminate the Service or to cease operations. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Service's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are 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 in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement 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.
- 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 applicable 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 Service' ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the 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 audit report. However, future events or conditions may cause the Service to cease to continue to sustain its services.
- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Service to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 June, 2022