

REPORT OF THE AUDITOR-GENERAL ON NATIONAL YOUTH SERVICE FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards, and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines, and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient, and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Youth Service set out on pages 2 to 24, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 the National Youth Service as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended in accordance with the 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 Property, Land and Buildings

1.1 Inaccuracies in Land and Buildings Balances

The statement of financial position reflects property, plant and equipment balance of Kshs.430,224,581. As further disclosed in corresponding Note 13 to the financial statements, the balance includes an amount of Kshs.319,321,146 in respect of land and buildings. However, the values of land and buildings were combined together as one class of assets in the financial statements contrary to International Public Sector Accounting Standards IPSAS 17. Land is a tangible asset with unlimited useful life and therefore not depreciated. Due to this erroneous disclosure, the depreciation amount of Kshs.13,305,048 charged on both land and buildings is not fairly stated. Further, additions to land and buildings totalling Kshs.102,789,758 was not supported with documentation.

1.2 Incomplete Fixed Asset Register

The statement of financial position reflects property, plant, and equipment balance of Kshs.430,224,581 as disclosed in Note 13 to the financial statements. As previously reported, the Service did not maintain a complete and accurate asset register with information relating to the assets such as type of the asset, date of acquisition, supplier, cost, location, code, current values, remaining useful life, and salvage value. Further, the assets have not been tagged for tracking and identification.

1.3 Encroachment of National Youth Service Land

The Service has approximately 2,247 hectares of land in Yatta, Mavoloni, Athi River, Mombasa Technical Institute and Mwatate among other regions. Physical verification of the land in February and March, 2022 revealed that the parcels of land have not been fenced and were encroached on. Although Management has initiated the process of demarcation of the respective parcels of land, the process has not been finalized.

Therefore, the Service risks losing the parcels of land due to encroachment by informal settlers.

1.4 Non-Disclosure of Biological Assets

As disclosed under Note 19 to the financial statements on segment information, the Service has twenty-two (22) field units for empowering youths through technical training, farming and other programmes out of which fifteen (15) units carry out farming activities. However, an inspection carried out in Yatta, Athi River, Mavoloni units in March, 2022

revealed that the Service has biological assets with an estimated fair value of Kshs.614,739,760 which have not been disclosed in the financial statements. Management did not provide explanations for non-disclosure of undetermined value of the biological assets.

1.5 Unsupported Infrastructure and Civil Works

The statement of financial position as at 30 June, 2021 and as disclosed under Note 13 to the financial statements reflects property, plant and equipment amounting to Kshs.489,809,814 which includes Kshs.242,256,366 in respect to additions of assets and the related works during the year under review. The additions include Kshs.30,381,211 incurred under other infrastructure and civil works, which was not supported with payment vouchers and the underlying documentation.

In view of the foregoing, the accuracy, completeness and valuation of property, plant and equipment balance of Kshs.430,224,581 as at 30 June, 2021 could not be confirmed.

2.0 Refundable Deposits by Customers

The statement of financial position and as disclosed under Note 15 to the financial statements reflects a balance of Kshs.1,564,205,897 in respect of refundable deposits from customers. The balance is comprised of Kshs.1,211,422,162 and Kshs.352,783,734 for service men/women savings and other deposits-cohorts, wages, kitchen and allowances payable to Service men/women respectively. However, included in the balance is an amount of Kshs.41,757,563 in respect of retention monies from the contractors which was not analyzed, itemized and supported.

In addition, an amount of Kshs.352,783,734 was owed to cohorts that were engaged in the six (6) months Youth Empowerment Programme between September, 2014 and February, 2015. However, Management had not paid the cohorts as at the time of the audit. Management did not provide explanation for the delay in paying the cohorts.

In the circumstances, the accuracy and completeness of retention monies balance Kshs.41,757,563 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Audit Matters

In the report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as Parliament has not met to deliberate on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of 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, 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 Incomplete Rehabilitation and Upgrading of Sewer at National Holding Unit

The Service entered into a contract for the Rehabilitation and Upgrading of Sewer at National Holding Unit on 4 May, 2020. The Service had paid Kshs.35,558,176 as at 30 June, 2021 which was not recognized as work in progress in the financial statements. Further, physical verification of the project in May, 2022, about twelve (12) months after the lapse of completion date revealed that, the contractor had abandoned the site leaving the cut-off sections of internal tarmac roads open without tarmac.

As a result, value for money has not been realised in the implementation of the project.

2.0 Stalled Projects

2.1 Stalled Construction of Four-Storey Classrooms Block and Workshops at NYS Engineering Institute-Ruaraka

The Service Management entered into a contract for the construction of a four storey classrooms block and workshops at the NYS Engineering Institute in Ruaraka on 13 April, 2011 at contract sum of Kshs.88,794,355. The project was to take 52 weeks ending on 9 June, 2012. This was later extended by thirty-one (31) weeks and was expected to have been completed by 12 January, 2013. However, the construction stalled in 2017 after the payment of Kshs.81,884,550 equivalent to 92% of the contract sum against 95% of the works certified.

Physical inspection conducted in May, 2022 revealed that no construction works were ongoing as the contractor had abandoned the site. The incomplete works include electrical, plumbing and drainage that were originally valued at Kshs.4,778,265 as per the State Department of Public Work's appraisal report dated 5 April, 2022.

As a result, value for money has not been realised eleven (11) years after the construction commenced.

2.2 Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute-Ruaraka

The Service awarded the contract for the Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute Ruaraka to a construction company in May, 2011 at a contract sum of Kshs.192,000,000. The project commenced on 13 June, 2011 with a contract duration of 80 weeks. The contractor was granted an extension period up to 13 March, 2017. The contractor, however, abandoned the site after receiving payments totalling Kshs.186,248,573, or 90% of the agreed contract sum. Physical inspection of the project in May, 2022, revealed that work had stalled and the contractor had abandoned the site. Further, huge visible cracks on the wall and floor were noted which continue to deteriorate. The Management claimed that the delay in completion was mainly due to delayed payments to the main contractor and sub-contractors.

As a result, value for money has not been realised eleven (11) years after the construction commenced.

2.3 Supply, Delivery and Installation of High and Low-Level pressed steel water Tanks, Booster Pumps and Tower works

The Service entered into a contract for the supply, deliver and install high- and low-level pressed steel, water tanks, booster pumps and tower works for enough water storage at National Youth Service Vocational Training Institute (VTI) located in the Industrial area, Nairobi at a contract sum of Kshs.11,715,396 on 03 September, 2019 for a period of sixteen (16) weeks ending on 31 October, 2020.

Physical inspection in May, 2022, revealed that the project was incomplete. The pump house electrical works and piping works were yet to be completed while water booster pumps were not installed. The contractor abandoned the site on 23 October, 2020 on the grounds of non-payment of certified works valued at Kshs.5,770,669.

As a result, value for money has not been realised on the project.

2.4 Stalled Construction of Housing Units at Vocational Training Institute-Industrial Area

The Service entered into a contract for the construction of a 12 unit flat at the Vocational Training Institute - Industrial Area at a contract cost of Kshs.49,105,721. However, the contractor abandoned the site after receiving the first payment of Kshs.7,111,432.

Management re-advertised the works and awarded the contract for the completion at a contract cost of Kshs.61,098,319 for a period of fifty-two (52) weeks commencing on 26 November, 2019. Physical inspection conducted in May, 2022 revealed that the project was incomplete and the contractor had abandoned site after receiving payments of Kshs.23,000,000.

As a result, value for money has not been realised on the project on the expenditure of Kshs.339,573,400.

3.0 Irregular Procurement of Repairs and Maintenance Service

The Service awarded a contract for the supply and delivery of paint a contract amount of Kshs.2,995,200 and paid the same on 30 June, 2021. However, it was noted that the contract was awarded to a supplier who had not tendered. Further, the professional opinion attached to the payment voucher was approved on 8 February, 2021 a day before the quotations were opened and evaluated by the committee appointed by the accounting officer.

In the circumstances, Management was in breach of law in awarding the contract.

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 OF 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 Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Service's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services 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.

The Board of Directors is responsible for overseeing the Service's financial reporting process, reviewing the effectiveness of how the 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's 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

31 August, 2022