

REPORT OF THE AUDITOR-GENERAL ON NATIONAL YOUTH SERVICE FOR THE YEAR ENDED 30 JUNE, 2023

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 the 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 overall 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 1 to 38, which comprise of the statement of financial position as at 30 June, 2023, 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, 2023, 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. Unsupported Property, Plant and Equipment Balance

The statement of financial position reflects property plant and equipment balance of Kshs.30,253,103,894 as disclosed in Note 20 to the financial statements. However as previously reported, the Service did not maintain a complete and accurate asset register with information relating to the assets on 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.

In addition, the Service has approximately two thousand two hundred and forty-seven (2,247) hectares of land in Yatta, Mavoloni, Athi River, Mombasa Technical Institute and Mwatate. However, the parcels of land have not been fenced and are encroached. Although Management has initiated the process of demarcation of the respective parcels of land, the process has not been finalized. Similarly, the NYS Engineering Unit land has been encroached by private developers who have constructed structures on it and therefore, the Service risks losing the land due to encroachment by informal settlers.

In the circumstances, the accuracy, completeness and valuation of the property, plant and equipment balance of Kshs.30,253,103,894 could not be confirmed.

2. Unsupported Refundable Deposits from Customers

The statement of financial position reflects refundable deposits from customers amounting to Kshs.1,339,515,130 as disclosed in Note 23 to the financial statements. The amount includes retention monies from contractors of Kshs.33,999,266 and other deposits-cohorts; wages, kitchen and allowances payable to servicemen and women of Kshs.344,308,974. However, the retentions from contractors of Kshs.33,999,266 were not supported with retention money register, ledgers and aging analysis. Further, as previously reported, the other deposits-cohorts; wages, kitchen, and allowances payable to servicemen and women of Kshs.344,308,974 are in respect to cohorts that were engaged during the six (6) months Youth Empowerment Programme between September, 2014 and February, 2015. Management did not provide satisfactory explanation for the delay in paying the cohorts.

In the circumstances, the accuracy and completeness of the refundable deposits from customers totalling Kshs.378,308,240 could not be confirmed.

3. Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.851,619,418 as disclosed in Note 17 to the financial statements. This balance includes Kshs.377,696,716 in respect of service, hire services of service men and women. The balance increased by Kshs.354,515,508 or 1,500% compared with the

previous year balance of Kshs.23,181,208 which indicates inadequate measures on debt collection. Further, the inter-units debtors have risen by 37% from Kshs.284,936,674 in the prior year to Kshs.391,955,435. Management did not provide explanation on the failure to collect the debts. Further, no specific provisions by way of bad debt provision has been made in the financial statements to recognize the likely impairment.

In the circumstances, the recoverability and completeness of the receivables from exchange transactions balance of Kshs.851,619,418 could not be confirmed.

4. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.1,470,636,573 as disclosed in Note 22 to the financial statements. The balance includes payables totalling Kshs.740,530,463 which were not supported by a ledger and payment vouchers. Further, pending bills amounting to Kshs.15,883,987,683 which were submitted to the Pending Bills Verification Committee were not included in the financial statements. In addition, the delay in paying these bills has led to legal cases which may result to monetary losses by way of legal fees and penalties.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.1,470,636,573 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 audit 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.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.12,913,132,673 and Kshs.10,540,854,163 respectively, resulting to an underfunding of Kshs.2,372,278,510 or 18% of the budget. Similarly, the Service spent Kshs.10,558,354,163 against an approved budget of Kshs.12,941,677,676 resulting to an under absorption of Kshs.2,383,323,513 or 18% of the budget. However, the underperformance in revenue collection and under-expenditure was not explained by way of notes contrary to the guidelines issued by the Public Sector Accounting Standards Board which provides that material variances of 10% and above be explained in a note.

The underfunding and under-absorption affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

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 during the year under review.

Other Matter

Unresolved Prior Year Audit Issues

In the audit 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. However, Management has not resolved some of the issues nor provided explanations for the failure to resolve the issues.

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 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. Human Resource Management

1.1 Over-Establishment of Uniformed Staff

Review of staff establishment for Uniformed Staff revealed overstaffing in three (3) positions of; Assistant Director, Senior Superintendent and Superintendent as shown below;

Position	Approved Establishment	In-Post	Over-Establishment
Assistant Director	14	30	16
Senior Superintendent	36	52	16
Superintendent	57	62	5

Management did not provide explanation for the overstaffing in the senior management positions.

1.2 Non-Compliance with One-Third of Basic Salary Rule

Review of payroll revealed that one hundred and fifty-six (156) employees were paid a net salary of less than a third (1/3) of their basic pay in June, 2023. This was contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of deductions which may be made by an employer from the wages of his employee at any

one time shall not exceed two-thirds of such wages. No explanation was provided for the breach of law on payment of salaries and allowances.

1.3 Payment of Salaries Outside the Integrated Personnel and Payroll Database (IPPD)

The statement of financial performance reflects use of goods and services expenditure of Kshs.8,545,833,364 as disclosed in Note 9 to the financial statements. Included in this amount is training expenses of Kshs.3,552,912,780 out of which Kshs.99,726,902 was paid to trainers and lecturers as salaries. However, the payments were processed outside the IPPD Government payroll processing system. Further, the criteria used in hiring the tutors was not provided for verification.

In the circumstances, the Service was in breach of the Public Service Policies and Procedures.

2.0 Stalled Projects

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

As previously reported, the Service entered into a contract for the construction of a 12 units flat at Vocational Training Institute-Industrial Area at a sum 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 completion of the project at a cost of Kshs.61,098,319 with a timeline of fifty-two (52) weeks commencing on 26 November, 2019. However, physical inspection conducted in the month of March, 2024 revealed that the project was incomplete and the contractor had abandoned the site after receiving payments totalling Kshs.23,000,000.

In the circumstances, the Service has not realized value for money on the expenditure of Kshs.30,111,432 spent on the project.

2.2 Supply, Delivery and Installation of High-and Low-level Pressed Steel Water Tanks, Booster Pumps and Tower Works at VTI Industrial Area

As previously reported in the financial year 2020/2021, the Service entered into a contract for supply, delivery and installation of high and low-level pressed steel water tanks, booster pumps and tower works at Vocational Training Institute (VTI) Nairobi Industrial area. The contract for a sum of Kshs.11,715,396 was signed on 03 September, 2019 for a period of sixteen (16) weeks ending on 31 October, 2020. However, the contractor abandoned the site on 23 October, 2020 due to non-payment of certified works valued at Kshs.5,770,669. Site visit carried out in the month of March, 2024, revealed that the works had stalled and efforts between the Service, Nairobi Region Works Office and the contractor revealed that no progress had been made.

In the circumstances, value for money has not been realized on the project.

2.3 Stalled Construction of Four-Storey Classrooms Block and Workshop at NYS Engineering Institute-Ruaraka

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

Review of the project in February 2024, revealed that the project is incomplete and Management did not provide measures being taken to complete the project. 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.

In the circumstances, value for money has not been realized twelve (12) years after the construction commenced.

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

As previously reported, 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 sum of Kshs.192,000,000. The project commenced on 13 June, 2011 with a contract duration of eighty (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. Site visit carried out in the month of March, 2024, revealed that no construction was ongoing and the contractor had abandoned the works. Further, huge visible cracks on the walls and floors 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.

In addition, Management has not made any efforts to invoke the relevant clauses of the contract to surcharge the contractor for the delayed completion.

In the circumstances, value for money has not been realized twelve (12) years after the construction commenced.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

1.0 Weaknesses in Revenue Collection

The statements of financial performance reflects sale of goods amount of Kshs.473,555,204 as disclosed in Note 8 to the financial statements. However, the following observations were noted:

1.1 Failure to Meet Revenue Targets

The Service collected Kshs.400,627,491 against a budget of Kshs.723,550,000 resulting to an underperformance of Kshs.322,922,509 or 45% of the budget. No explanation was given for the under-collection of revenue. Further, the underperformance affected the planned activities and programmes of the Service.

1.2 Failure to Automate Revenue Management

Review of revenue management revealed that revenue from farming, security services and hire of machinery is manual as it is yet to be digitized. The benefits that would accrue with automation such as invoicing, revenue collections, reconciliations and banking have not been realized as gaps in manual system may lead to undetected loss of revenue.

In the circumstances, the effectiveness of internal controls on revenue collection could not be confirmed.

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 controls, 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 Council

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 controls, risk management and 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 Council is 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 controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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.



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 April, 2024