

REPORT OF THE AUDITOR-GENERAL ON YOUTH ENTERPRISE DEVELOPMENT FUND 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 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 Youth Enterprise Development Fund set out on pages 1 to 36, 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 effects of matter 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 Youth Enterprise Development Fund 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Receivables from Exchange Transactions

1.1 Non-Performing Loans

The statement of financial position and as disclosed in Note 17(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.2,748,379,102. However, review of records revealed six (6) loan categories with an amount of Kshs.2,463,644,828 which had not been serviced for a period of more than three (3) years. In addition, the adequacy of a provision for bad and doubtful debts amounting to Kshs.395,460,218 could not be established. Further, Management did not explain the actions being taken to recover the long outstanding amounts.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.2,463,644,828 could not be confirmed.

1.2 Unidentified Loan Repayment

As previously reported, the statement of financial position and as disclosed in Note 17(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.2,748,379,102. Included in the balance is an amount of Kshs.66,138,662 relating to loan repayments from unidentified borrowers, with some remaining unidentified for more than three (3) years. Management did not explain why reconciliations were not done in order to update and allocate borrowers accounts which could lead to misstatement of receivables from exchange transactions balance.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.66,138,662 could not be confirmed.

1.3 Unrecovered Irregular Payment

As previously reported, the statement of financial position and as disclosed in Note 17(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.2,748,379,102, out of which an amount of Kshs.180,363,789 was held by a commercial bank and was irregularly paid to a Company following award of a supply's contract. This led to conviction of the Company and its Directors for conspiracy to commit an economic crime, unlawful acquisition of public property and falsifying documents. However, there was no evidence to indicate that the amount will be repaid to the Fund and therefore its recoverability is doubtful. In addition, no provision for bad and doubtful debts was made for this amount.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balance of Kshs.180,363,789 could not be confirmed.

2. Unconfirmed Inventories

The statement of financial position and disclosure Note 19 to the financial statements reflects inventories balance of Kshs.36,600,500 which has been brought forward from the previous financial year. The balance relates to automatic hatching machines that were procured during the financial year 2012/2013. The stock take report for the period ended 30 June, 2023 reflects that eight hundred and fifty-three (853) and fifty-two (52) pieces were being held at the National Youth Service (NYS) Ruaraka and NYS Mtongwe respectively, and they have been carried forward throughout the years without being disposed. Further, it was noted that despite the inventories being slow moving and likely to be impaired, no provision for impairment has been made.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.36,600,500 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Youth Enterprise Development Fund 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.

Emphasis of Matter

1. Going Concern

I draw your attention to Note 24 to the financial statements which indicates that the Fund has been reporting losses over the past years. During the year under review, the Fund had an improved performance, reporting a surplus of Kshs.5,168,982 compared to deficit of Kshs.123,233,755 in the previous year.

The poor performance over the last seven years has eroded the capital invested in the revolving Fund and impaired the ability of the Fund to discharge its mandate. This also casts significant doubt on the Fund's ability to sustain its services in the foreseeable future.

2. Budgetary Control and Performance

The statement of comparison budget and actual amounts reflects recurrent budget final and actual receipts on a comparable basis of Kshs.393,379,329 and Kshs.380,515,075 respectively resulting to an under-performance of Kshs.12,864,254 or 3% of the budget.

Similarly, the Fund spent Kshs.375,346,094 against an approved budget of Kshs.393,379,329 resulting to an under-expenditure of Kshs.18,033,235 or 5% of the budget. The underfunding and under expenditure in recurrent vote affected the planned activities and may have impacted negatively on service delivery to the public.

Further, the statement reflects development final budget and actual receipts on a comparable basis of Kshs.533,750,000 and Kshs.278,352,104 respectively resulting to an under-funding of Kshs.255,397,896 or 48% of the budget. Similarly, the Fund spent

Kshs.147,006,336 against an approved budget of Kshs.533,750,000 resulting to an under-expenditure of Kshs.386,743,664 or 72% of the budget.

The underfunding and under-expenditure in development vote affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

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.

Other Matter

Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which have remained unresolved as at 30 June, 2023.

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, I confirm that, nothing 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

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 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 those Charged with Governance

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 controls 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 Fund 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 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 Fund'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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls 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 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 Fund'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 Fund 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 Fund 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 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 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

22 February, 2024