REPUBLIC OF KENYA

REPUBLIC OF KENYA

OAG

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL YOUTH SERVICE

FOR THE YEAR ENDED
30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL YOUTH SERVICE FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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 45 which comprise of the statement of financial position as at 30 June, 2025, 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, 2025 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 National Youth Service Act, 2018 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Undisclosed Material Uncertainty Related to Going Concern

The statement of financial performance reflects a deficit of Kshs.2,607,325,287 being an increase of Kshs.2,395,650,074 from a deficit of Kshs.211,675,213 reported in the previous year 2023/2024. In addition, the total current assets and liabilities as at 30 June, 2025 amounted to Kshs.2,035,887,947 and Kshs.5,012,380,369 respectively resulting to a negative working capital of Kshs.1,132,858,818. Further, included in the current liabilities balance of Kshs.5,012,380,369 is trade payables balance of Kshs.3,429,530,527 which excludes historical pending bills of Kshs.15,890,237,695 as disclosed in Note 30 to the financial statements on contingent liabilities.

The Service is therefore facing liquidity issues and may not be able to meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis assuming continued support from the Government.

In the circumstances, the accuracy, presentation and disclosure could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.29,361,523,549 as disclosed in Note 20 to the financial statements.

However, the following observations were made:-

2.1 Lack of Ownership Documents

Included in this balance is an amount of Kshs.20,204,051,400 for sixty- nine (69) parcels of land owned by the Service. However, ownership documentation was not provided for six (6) parcels of land.

2.2 Encroachment of Land

Review of records revealed that the Service has approximately two thousand two hundred and forty-seven (2,247) hectares of land in Yatta, Mavoloni and Athi River, However, the parcels of land have not been fenced and have been encroached by private developers. 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.

Further, it was noted that there were land disputes in Mwatate Field Unit that has three hundred (300) acres of land which does not have clear boundaries and has been encroached by an informal settler from the local community. In addition, out of ten thousand (10,000) acres of Hindi Field unit, eight thousand, four hundred and fifty-six (8,456) acres have been encroached by informal settlers.

In the circumstances, the ownership of land valued at Kshs.20,204,051,400, could not be confirmed.

3. Unsupported Biological Assets

The statement of financial position reflects biological assets balance of Kshs.1,062,039,733 as disclosed in Note 22 to the financial statements. This balance relates to animals, breeding stock and timber trees at Service Field Units. However, there was no valuation report to support the balance.

In the circumstances, the valuation of the biological assets balance of Kshs.1,062,039,733 could not be confirmed.

4. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions of Kshs.691,556,587 as disclosed in Note 17 to the financial statements. Included are receivables of Kshs.94,273,324 that relates to various customers which has been outstanding for more than three hundred and sixty (360) days with no agreed payment plan. In addition, there was no provision for bad and doubtful debts.

In the circumstance, recoverability of these receivables 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.

Emphasis of Matter

1. Outstanding Contingent Liabilities

The statement of financial position reflects contingent liabilities balance of Kshs.17,569,517,364 as disclosed Note 30 to the financial statements. Included in this balance is an amount of Kshs.15,890,237,695 that relates to contracts (Historical Pending Bills). It was noted that the service requested The National Treasury letter Ref; NYS/ACCTS/2/3/(83) dated 31 July, 2025 for assistance on payment of those pending bills. However, there was no response verified from The National Treasury on the same. In addition, the Service might incur more expenses if lawsuits will be filed against Management.

2. Long Outstanding Refundable Deposits

The statement of financial position reflects refundable deposits balance of Kshs.1,582,849,842 as disclosed in Note 24 to the financial statements as at 30 June, 2025. The ageing analysis provided shows that a balance of Kshs.269,899,282 has been outstanding for a duration of more than three (3) years. The amount has been outstanding for more than ten (10) years and relates to money owed to youths involved in the Youth Empowerment Program. The efforts being put in place by the Service to reach, the individuals seem futile.

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. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior year's audit reports, 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. Review of the status during the audit of the Service in 2024/2025 revealed that the issues remained unresolved as detailed in **Appendix 1.**

Other Information

Management is responsible for the Other Information set out on page v to xxxviii which comprise of Key Entity Information and Management, The Council, Key Management Team, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Council and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit of the National Youth Service financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this Other Information and I am required to report that fact. Based on the audit procedures performed and the matters described in my Basis for Qualified Opinion, I confirm that Other Information is not materially inconsistent with the financial statements.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Stalled Construction of Housing Units at Vocational Training Institute

As previously reported, the Service entered a contract for the construction of a twelve (12) unit flat at the Vocational Training Institute-Industrial Area, Nairobi at a contract 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 the completion at a contract cost of Kshs.61,098,319 for fifty-two (52) weeks commencing on 26 November, 2019. Physical inspection conducted in October, 2025 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. Understaffing of the Service

Review of the Service's approved staff establishment indicated eight thousand, four hundred and seventy-two (8,472) employees as the optimal number for effective functioning of the Service. However, review of records provided for audit, including the staff establishment, personnel files and payroll, revealed that the Service has one thousand, six hundred and seventy-four (1,674) uniformed officers and three hundred and seventy-five (375) non-uniformed officers totalling two thousand and forty- nine (2,049) staff which represents only 24% of the staff establishment, resulting in a deficit of six thousand, four hundred and twenty-three (6,423) employees.

In the circumstances, the effectiveness of service delivery to the public could not be confirmed.

3. Gaps and Challenges in the Enterprise Resource Planning (ERP) System

The Service uses ERP system as the financial management system. The system was procured at an initial contract price of Kshs.58,913,571. However, it was noted that, the system had some inadequacies that includes inability to generate complete reports, detailed general ledger, detailed cashbook and payment registers. Further the ERP system lacks application interface with other systems such as mobile assets.

In the circumstances, the value for money for the system could not be ascertained.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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, except for the effect of 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 governance were not effective.

Basis for Conclusion

1. Lack of Financial Expertise in the Council

Audit review of the NYS Council revealed that none of the appointed Council members possess financial expertise as required under Section 1.1(6) of the Mwongozo Code of Governance for State Corporations which requires that at least one board member should have necessary qualifications and expertise in financial management and accounting. As such they are limited in their ability to.

In the circumstances, the Council may not have adequate capacity to carry out some of their responsibilities.

2. Lack of An Approved Risk Management Policy

Audit of the Service revealed that it is operating using a draft risk management policy that has not been approved contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to develop risk management strategies and a system of risk management and internal control.

In the circumstances, the existence of effective measures to manage risks incase they crystallize could not be confirmed.

3. Unsafe Storage of Fuel

During physical verification of the Units, it was noted that the Service field units procure fuel and stores it in drums within unsecured storage areas. This storage method presents significant safety risks and possibility of losses due to fuel spillage.

In the circumstances, effectiveness in management of fuel in the Units could not be confirmed.

4. Hazardous Working and Living Environment

Physical verification conducted in November, 2025, revealed that the Service continued overreliance on firewood as source of fuel for cooking.This may have negative impact on the environment and on health of the users. Further, many structures in some Units and the Headquarters have asbestos roofing which may be hazardous to human beings.

In addition, some classes at engineering schools lacked electricity connection, ablution blocks were not functional in a four (4)-storey block at Headquarters. Congestion and inadequate ventilation was manifested in somes class rooms.

In the circumstances, the effectiveness in conducive working environment could not be confirmed.

5. Lack of Adequate Facilities in the Service

Physical verification of various Units of the Service revealed inadequacies as described below:

5.1 Rift Valley Region

The paramilitary academy has a total of 16,875 service men and women and recruits that are housed within the academy. It was however noted that the bed capacity in the academy is 15,000 beds leading to deficit in beds of 1,875 beds. This is a clear indication that there is congestion in the accommodation facilities.

5.2 Eastern Region

The Yatta Field Unit revealed that the Unit has a strength of 2,774 which include 1,735 servicemen and 1,039 servicewomen. It was noted that the Unit is anticipating a total strength of 4,453 servicemen and women come the month of September 2025. However, the Field Unit has 35 barracks, 18 are permanent and 17 are semi-permanent holding 2,552 beds. This is a clear indication that there will be congestion in the accommodation facilities among others.

5.3 Coast Region

Mwatate Field Unit has two generators, 1 portable generator single Phase 220-240 W that services the administration block and a generator purchased when the unit started operation that is yet to be installed for usage, the delay in installation has not been justified. There is no sufficient water for usage and they have to procure clean water for drinking and cooking 50KM away from station. There is poor road network and in addition to that unit has only one operational vehicle. Further the nearest health facility is located 20Km away from the station and with a bed capacity of 500 beds, the unit only has 200 mattresses that are usable and rest are in deplorable conditions. The unit has two stalled barracks which have stalled for more than 3 years now.

5.4 Hindi Field Unit

Hindi Field Unit has 6 barracks, 5 permanent and 1 temporal with capacity of 305 service men. However, the unit has a total of 403 service men. Further it was noted that (4) of the barracks are in deplorable conditions, due to bad weather conditions the windows are not in habitable conditions and need renovation. The unit lacks electricity, poor network connectivity that they have to make most of their transactions from Mombasa technical college Unit. The unit does not have water, they have to procure water for usage 30km away from station. There is no permanent fencing leading to invasion by wild animals that possess risk to staff and service women.

5.5 Mombasa Technical Training College

Mombasa Technical Training College has 5 barracks for women, 4 permanent and 1 temporal. The capacity of the barracks is four hundred and twenty (420) service women, it was however observed that the barracks currently holding a capacity of five hundred and thirty-five (535) service women, overstretch the women barracks by one hundred and fifteen (115) service women.

In the circumstances, the workforce may be exposed to frequent physical and psychological effects of unfriendly working environment

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 Council

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 governance.

In preparing the financial statements, Management is responsible for assessing the National Youth Service 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 is aware of the intention 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 comply 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 December, 2025

APPENDIX 1: Unresolved Prior Year Matters

No.	Financial Year	Audit Issue
1	2023/2024	Unsupported Property, Plant and Equipment Balance
2	2023/2024	Unsupported Adjustments
3	2023/2024	Unsupported Refundable Deposits from Customers
4	2023/2024	Unconfirmed Receivables
5	2023/2024	Undisclosed Trade Payables
6	2023/2024	Understated Trade Payables
7	2023/2024	Long Outstanding Trade Payables
8	2023/2024	Unsupported Inventory Balances
9	2023/2024	Sustainability of Services
10	2023/2024	Budgetary Control and Performance
11	2023/2024	Stalled Construction of Housing Units at Vocational Training Institute- Industrial Area
12	2023/2024	Supply, Delivery and Installation of High- and Low-Level Pressed Steel Water Tanas, Booster Pumps and Tower Works (VTI Industrial Area)
13	2023/2024	Stalled Construction of Four- Storley Classrooms Block- and Workshop at NYS Engineering Institute- Ruaraka
14	2023/2024	Stalled Construction of Double Span Kitchen, Dining and Barracks at NYS Engineering Institute- Ruaraka
15	2023/2024	Non- Compliance with Employment Requirements for Persons with Disability
16	2023/2024	Failure to Enforce gender Balance in Employment
17	2023/2024	Hazardous Working Environment
18	2023/2024	NYS Council Membership