

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE STATE DEPARTMENT FOR PUBLIC SERVICE AND YOUTH FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of the State Department for Public Service and Youth set out on pages 3 to 25, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of appropriation - recurrent and development combined, statement of budget execution by programs and sub programs 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Cash and Cash Equivalents

1.1 Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflects total financial assets of Kshs 1,356,002,372 comprising of Kshs.1,347,099,137, Kshs.1,040,770 and Kshs 7,862,465 relating to bank balances, cash on hand and outstanding imprests respectively. However, the following anomalies were observed in relation to the balances;

- i.) The financial statements reflect an account balance of Kshs.704,956,228 held at Kenya Commercial Bank account number 1178058158 relating to Huduma Cohorts Saccos' outstanding balances whose detailed analysis provided supports Kshs.438,834,280 leaving an unreconciled and unsupported balance of Kshs.266,121,948.
- ii.) The Board of Survey Certificate for Central Bank of Kenya Deposits account number 1000303328 dated 1 July 2018 shows a bank balance of Kshs.416,412,170 as at 30 June 2018 while the reported cashbook balance is

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Kshs.420,082,870 leading to an unexplained and unreconciled variance of Kshs.3,670,700.

- iii.) The bank reconciliation statement for Director General's NYS account No.010011000909300 held at National Bank – Harambee Avenue branch, reflects payments totaling to Kshs.241,350,937 relating to payments in the cash book not in bank statement all of which are over six (6) months old and hence stale. No explanation has been provided for failure to reverse the stale cheques. Further, the bank reconciliation statement includes in the payments in the bank statement not reflected in the cash book totaling to Kshs.283,926,488 which have been outstanding for more than six (6) months. No explanation has been given for failure to reconcile the outstanding items.
- iv.) The bank reconciliation statement for Central Bank Development account No. 1000303317 reflects payments in cashbook not in bank statement of Kshs.11,020,767 out of which payments amounting to Kshs.145,727 are over six (6) months old hence stale. No explanation has been provided for failure to reverse the stale cheques. Further, included in the payments in the bank statement not in the cashbook are payments totaling to Kshs.1,173,573 which have been outstanding for more than six (6) months hence stale. No explanation has been given for failure to reconcile the items.

In addition, receipts in the cash book not in bank statements of Kshs.1,194,232 which have been outstanding for more than six (6) months. No explanation has been provided for failure to clear the items.

- v.) The cash and cash equivalents balance of Kshs.1,348,139,907 excludes National Youth Service Huduma Academy, Yatta which had an opening balance of Kshs.10,674,804 as at 1 August 2017 and for which the bank statement provided shows several withdrawals and zero deposits. No cashbook, bank reconciliation, certificate of bank balance and board of survey report have been provided for audit review. Although management indicate that it is a public school run by an Independent Board of Governors, no evidence in support of this assertion has been provided for audit review.

1.2 Unrecorded Receipts on Authority to Incur Expenditure (AIEs) Balances

The State Department of Public Service and Youth Affairs issued Authority to Incur Expenditure (AIEs) to various field stations and charged the expenditure returns to various expenditure item codes in line with the budget. However, analysis of AIE returns and field inspection reports for seven sampled stations shows unspent balances as follows;

Station	Amounts Received Kshs.	Expenditure Kshs.	Balance Kshs.
Yatta field unit	151,832,442	150,842,141	990,301
Athi River Station	60,206,690	59,267,329	939,361
Tumaini field unit	25,882,450	25,614,864	267,586
Total			2,197,248

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Although the amount represented cash and bank balances at the field stations, the balances were not disclosed as cash and cash equivalents as at 30 June 2018.

1.3 Undisclosed Bank Accounts

- (i) The statement of cash flows reflects cash and cash equivalents account balance as at 30 June 2018 of Kshs.1,348,139,907 as analyzed under notes 10A and 10B to the financial statements. The certificate of bank balances issued to the State Department by Central Bank of Kenya had a balance of Kshs.1,400,000 held in A/C No.1000303336 at Central Bank of Kenya as at 30 June 2018 which was not included in the bank balances reflected on the financial statements. Although management has explained that the account is a holding / suspense account and the amounts were transferred to the recurrent account as at 30 June 2018 and included in the reported balance for recurrent account, no evidence has been provided to show that the amounts had been swept to the recurrent account as at 30 June 2018 and included in the reported account balance of Kshs.171,712,358.
- (ii) Further, the balance of Kshs.1,348,139,907 under cash and cash equivalents as disclosed under note 10 to the financial statements excludes unquantified transactions and account balance for bank account No.257730136 at Kenya Commercial Bank (KCB), Thika Branch whose name is National Youth Service (NYS) Huduma Academy, Yatta with a closing bank balance of Kshs.1,901,179.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,348,139,907 as at 30 June 2018 could not be ascertained.

2. Unsupported Expenditure

The statement of receipts and payments reflects total payments totaling to Kshs.21,063,019,625 which include payments amounting to Kshs.182,718,344 whose payment vouchers were not made available for audit verification since they were being held by various investigating agencies.

Under the circumstances, the payments as reflected on the statement of receipts and payments could not be confirmed to the extent of Kshs.182,718,344 represented by the missing payment vouchers.

3. Accounts Payables

3.1 Unsupported Staff Accounts Payables

As reported in 2016/2017, the statement of assets and liabilities reflects a balance of Kshs.1,300,474,422 (2016/2017- Kshs.789,066,011) against accounts payables as disclosed under note 12 to the financial statements. The balance consists of outstanding payables for deposits, National Youth Service- Service men and women

savings and allowances, and NYS – Huduma Cohorts totaling Kshs.416,412,170 (2016/17-Kshs.231,544,785), Kshs.71,661,430 (2016/17-Kshs.114,630,549) and Kshs.812,400,822 (2016/17 Kshs.442,890,677), respectively.

However, the listings in support of amounts owing to National Youth Service – service men and women savings and allowances and National Youth Service – Huduma Cohorts of Kshs.71,661,430 (2016/2017 Kshs.114,630,549) and Kshs.812,400,822(2016/17 Kshs.442,890,677) respectively have not been provided for audit review.

Consequently, the accuracy and completeness of the account payables balance of Kshs.1,300,474,422 could not be confirmed.

3.2 Accounts Payables - Hire of Equipment

The statement of assets and liabilities reflects a balance of Kshs.1,300,474,422 against accounts payables as disclosed under note 12 to the financial statements which relates to amounts payable to youths engaged in the Youth Empowerment Programme for the services rendered and deposits owed to contractors. However, the balance excludes amounts owed to the Mechanical and Transport Fund for services rendered of Kshs.1,361,855,934 relating to hire of equipment charge and borrowing from the fund. Consequently, the accuracy and completeness of the accounts payables balance of Kshs.1,300,474.422 as at 30 June 2018 could not be confirmed.

4. Unreported and Unsupported Pending Bills

Note 16.1 on other important disclosures to the financial statements reflects a balance of Kshs.967,434,265 disclosed as outstanding pending bills as at 30 June 2018. However, Field verification at sampled stations inspected during the Month of April 2019 relating to outstanding pending bills as at 30 June 2018 revealed that bills totaling to Kshs.1,586,208,155 are held at seven (7) stations as compared to the reported balance in the financial statements of Kshs.384,682,494 relating to the National Youth Service (NYS) resulting to an unexplained variance of Kshs.1,201,525,661 as follows:

Station	Pending Bills (Kshs)
Yatta field station	170,956,165
Gilgil field station	957,917,719
Tumaini farm station	12,949,430
Athi River field station	101,760,675
Mavoloni field station	14,839,796
Mombasa college	6,900,000
Naivasha college	320,884,370
Total	1,586,208,155

Consequently, the accuracy and completeness of the pending accounts payables of Kshs.967,434,265 as at 30 June 2018 could not be confirmed.

5. Proceeds from Sale of Assets - Unrecorded Revenue

The statement of receipts and payments and note 3 to the financial statements reflects proceeds from sale of assets balance of Kshs.11,465,422 as at 30 June 2018. However, analysis of revenue collected at four (4) field stations during field inspection carried out in the month of April 2019 revealed that Kshs.41,207,405 was received during the financial year ended 30 June 2018 as detailed below:

Station	AIA Collected/Revenue (Kshs)
Gilgil College	5,795,075
Yatta field unit	241,775
Athi River field unit	22,189,005
Tumaini farm unit	12,981,550
Total	41,207,405

These revenue has not been disclosed in the financial statements for the State Department for the financial year ended 30 June 2018. In addition, examination of official receipt books maintained at the State Department revealed that Kshs.978,498 received in relation to revenue were omitted from the reported balance for sale of assets.

In consequence, the accuracy and completeness of the figure for total receipts from sale of assets of Kshs.11,465,422 and the accuracy of Kshs.41,207,405 undisclosed revenue could not be ascertained as at 30 June 2018.

6. Unauthorized, Unreported and Unaccounted for Borrowing

The State Department borrowed Kshs.1,114,827,220 from the Mechanical and Transport Fund through internal memos ref: NYS/ED/9/27 VOL.VI (67) dated 15 December, 2017 and NYS/FIN/2/3 dated 3 October 2017. The memo was written by the Director General – National Youth Service to the Principal Secretary who approved the request on 18 December 2017. The amounts were borrowed in two batches of Kshs.478,927,907 and Kshs.635,899,313 during the year under review. The first batch of Kshs.478,927,907 has since been refunded to the Mechanical and Transport Fund bank account. However, the second batch of Kshs.635,899,313 which was purportedly borrowed to settle outstanding tuition fees and accommodation claims from various Technical and Vocational Training Institutions (TVET's) for January and September 2017 in respect of trainees all totaling to Kshs.635,899,313 has not been reported in the statement of receipts and payments and the statement of assets and liabilities have not disclosed these receipts and corresponding expenditures neither has the outstanding amount been disclosed as a liability.

Consequently, the accuracy and completeness of the total receipts figure of Kshs.21,020,670,673 and total payments figure of Kshs.21,063,019,625 could not be confirmed.

7. Wrong Account Charge and or Unauthorized Excess Vote

During the year under review, the statement of receipts and payments reflects a figure of Kshs.5,850,009,548 under use of goods and services. The accounts balance relates to various expenditure account codes as disclosed under 5 to the financial statements. However, analysis of the various transactions as recorded in ledgers reveals that the State Department charged expenditure items to other account codes other than the codes as per the approved budget contrary to the requirements of Section 43(2)(c) of the Public Finance Management Act 2012 as tabulated below:

Description	Account Balance Kshs.	Wrong Account Charge Kshs.	% Wrong Charge
Communication supplies and serviced	55,371,414	5,090,552	10
Domestic travel and subsistence	131,694,936	19,272,793	15
Foreign travel and subsistence	19,603,279	3,737,595	19
Printing, advertising and information supplies and services	15,670,300	2,352,846	16
Office and General supplies	31,095,644	7,246,870	23
Routine maintenance – other assets	169,930,360	167,450,385	97
Utilities, Supplies and services	184,311,698	128,698,354	70
Rentals of produced assets	528,405,650	373,377,327	71

No satisfactory explanation has been provided for failure to obtain approval for reallocation of funds as required under law.

8. Consultancy Services at National Youth Service

8.1 Systems Development Consultancy Services by a Firm

The State Department contracted a consultancy firm for provision of consultancy services in systems development for the National Youth Service at a contract sum of Kshs.243,160,464. The firm executed the project and exited, however, no documentation in relation to the milestones achieved and outputs from the execution have been provided for audit review.

Further, it was not possible to confirm and evaluate how the contract was concluded, proof of deliverables achieved and approved by inspection and acceptance committee relating to the payments of Kshs.112,826,454 so far made and outstanding amounts of Kshs.56,413,228 listed in pending bills for the financial year 2017/2018.

8.2 Consultancy Services by Individuals

The State Department engaged three (3) consultants for a duration of three years to provide services on legal, ICT and internal audit at contract sums of Kshs.19,404,000, Kshs.27,324,000 and Kshs.19,404,000 respectively. As at 30 June 2018, a total of

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Kshs.23,926,224 had been paid in respect of these contracts notwithstanding the fact that the State Department had an internal audit department, an ICT department and legal office section as well as advice provided by the Attorney General's Office. The contacts were clearly duplication of existing roles that had existing employees undertaking the same duties.

Further, no evidence of milestones and any outputs achieved from the above consultancies have been provided for audit verification and therefore casts doubts on value for money received from these contracts.

Consequently, it was not possible to confirm whether public funds were spent in a lawful and effective way as required under Article 229(6) of the Constitution of Kenya, and non-compliance with Article 232(1)(b) of the Constitution on utilization of public resources.

9. Rehabilitation of Civil Works - Unjustified Procurement of Building Materials

The rehabilitation of civil works expenditure of Kshs.1,052,626,086 as reflected on note 9 to the financial statements include purchase of building materials worth Kshs.532,950,990 procured in the financial year 2016/2017 but paid for in the current financial year. However, physical inspection at the stores undertaken in January 2019 showed that materials worth Kshs.506,630,090 which included 357 Jericans of white spirit valued Kshs.649,740 already expired at the date of verification remained unutilized over two years with no indication of when they were to be utilized.

Consequently, no justification of the procurement, payment and non-use of building materials worth Kshs.532,950,990 which have remained unused for more than two years has been provided.

10. Unsupported, Unaccounted and Lack Value for Money on Field Stations Expenditure

The audit field inspection and verification exercise was undertaken in seven (7) field stations namely; Naivasha, Gilgil, Tumaini, Yatta, Mavoloni, Mombasa and Mwatate in April 2019 and the following were the findings:

10.1 Yatta Field Station – Unsupported and Unaccounted Materials Expenditure

The station constructed six temporary hostels, two classrooms and three kitchen at a cost of Kshs.27,814,990 during the financial year 2017/2018. The station procured materials from various suppliers prequalified at the sub-county and engaged servicemen and servicewomen to provide labour for construction works. However, the bills of quantities provided for audit verification showed that each hostel was supposed to cost Kshs.1,319,070. Excluding labour giving a total of kshs.7,914,420 while each classroom was to cost kshs.640,650 excluding labour giving a total of Kshs.1,281,300 and each kitchen was to cost Kshs.333,700 excluding labour giving a total Kshs.1,001,100. The total cost of the constructions as per the approved bill of quantities was Kshs.10,196,820 resulting in a unexplained variance of Kshs.17,618,170.

No explanation has been provided for the high cost above the engineers estimate from Ministry of Public Works.

In addition, the management indicated that all the projects were complete and in use, however, it was observed that the kitchen floors and the external works were still incomplete raising doubt as to the quality of workmanship and if the services of county public works officers were utilized to supervise and certified the construction projects. As a result, it was not possible to confirm whether there was value for money on the expenditure of Kshs.27,814,990.

10.2 Mwatate Field Station

10.2.1 Construction of Barracks and Latrine

During the financial year 2017/2018 the Station constructed four (4) Barracks at a cost of Kshs.9,857,150 and a three door pit latrine and a bathroom at a cost of Kshs.2,000,000. However, physical inspection of the buildings revealed that the latrine with three (3) doors and a bathroom with two (2) doors which were constructed at a cost of Kshs.2,000,000 had not been fixed with doors as per the bills of quantities yet the contractor had been paid the full amount including retention monies despite the works being incomplete.

Further, the barracks had fallen windows and doors and the quality of materials used and workmanship is doubtful.

Consequently, it was not possible to confirm whether public funds were applied lawfully and in an effective manner on the expenditure of Kshs.9,857,150 as required under Article 229(6) of the Constitution of Kenya 2010.

10.2.2 Stalled Water Borehole Project

The station incurred Kshs.1,740,000 for purchase of water, which the field station has to track from 120 kilometers daily using a water bowser. It was observed that two hydrological surveys for sinking a borehole were done by Kenya Water Institute and a consultant in December 2017 and 2 February 2018 which identified the locations for the well at cost of Kshs.65,000. The site identified by Kenya Water Institute was drilled and found to be dry while the second site is yet to be drilled. Additional surveys had been done and possible locations for the well identified. However, field inspection carried out in the month of April 2019 revealed that no work had started at the second identified site yet the station continues to incur heavy expenditure on purchase and transportation of water.

Consequently, it was not possible to confirm that public funds are being utilized in an efficient, effective and in an economical manner as required under Article 232 (1) (b) of the constitution of Kenya 2010.

10.3 Gilgil Field Station-Payment of Mileage Allowance for Recruits

The Gilgil college paid mileage allowance for recruits first batch course 2/2017 totaling to Kshs.3,636,459 and supported the payment voucher by a letter dated 30 October

2017. However, there was no evidence of authorization of the payments of the mileage allowance as required.

In addition, the list of payees provided for audit review showed that most of the recruits had not received their allowances despite the whole amount being expensed as paid in the accounting records. No explanation has been provided for the anomaly. Consequently, the expenditure of Kshs.3,636,459 on mileage allowance for recruits could not be ascertained.

10.4 Capital Expenditure on Rehabilitation and Civil Works at Tumaini Farm Unit

Tumaini Field Unit received development expenditure of Kshs.22,100,308 under item code other infrastructure and civil works. The amounts were utilized on construction of two (2) eighty (80) bed capacity barracks and construction of kitchen cum dining hall at a cost of Kshs.8,781,737 and Kshs.15,818,546 respectively.

10.4.1 Construction of the Kitchen and Dining Hall

Review of payment voucher Nos.1030252 and 1030229 shows that the payments are supported by two certificates both serialized as No. 3 dated 25 June 2018 with an amount of Kshs.2,249,979 and 21st June 2018 with an amount of Kshs.4,935,785 respectively. The certificates have differing amounts despite having been written only four (4) days apart and baring the same certificate number.

In addition, although the certificates have been stamped by the County Works department they are not signed by the responsible officer hence their authenticity could not be confirmed.

10.4.2 Construction of the 2 No. 80 Beds Capacity Barracks

Review of payment voucher Nos.1030228 and 1030185 shows that the payments are supported by two certificates both serialized as No.02 dated 12 June 2018 with an amount of Kshs.2,490,025 and 12 June 2018 with an amount of Kshs.2,571,935 respectively. The certificates have differing amounts despite having been written on the same day and baring the same certificate number.

In addition, although the certificates have been stamped by the County Works department they are not signed by the responsible officer hence their authenticity could not be confirmed.

Under the circumstances, the expenditure in the inspected filed stations has not been supported, accounted for or the state department gotten value for money as at 30 June 2018.

11. Procurement, Supply and Delivery of Construction Materials for Construction of Karen and Ngong Road Furniture Market

The statement of receipts and payments and as disclosed under note 9 to the financial statements reflects a balance of Kshs.2,847,106,725 under acquisition of assets. Included in the figure under the rehabilitation of civil works balance of Kshs.1,052,626,086 is Kshs.532,950,990 relating to procurement of construction

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materials for Karen and Ngong furniture markets. However, examination of records relating procurement and payment for the materials revealed that:

11.1 Unexplained Excess Expenditure

Information availed for audit showed that the materials ordered were in excess of the estimate materials cost of Kshs.53,495,950 for Karen and Kshs.143,000,000 for Ngong Road Market which amounted to Kshs.196,495,950. The excess of Kshs.336,455,040 has not been explained.

As a result, it was not possible to determine how the quantity of materials required was arrived at and if the materials procured and received were of the right quantity and met specifications as per the approved designs and engineer's estimates.

11.2 Procurement Method

The materials were purportedly procured using framework contracting pursuant to Section 114(3)(b) of the Public Procurement and Assets Disposal Act 2015. Documents relating to sourcing of suppliers, minutes of evaluation, negotiations, approvals, framework contracts signed between the State Department and various suppliers were not availed for audit verification. In addition, market survey reports used to guide on pricing have not been availed for audit verification.

Consequently, it was not possible to confirm whether the procurements were done as required under law and complied with Article 227(1) of the Constitution of Kenya 2010.

11.3 Bills of Quantities

Although the bills were provided by the State Department of Public Works which totalled Kshs.239,522,781 inclusive of labour costs amounting Kshs.39,026,831 and project manager expenses of Kshs.4,000,000. The management procured materials worth Kshs.532,950,990 without any documented basis.

Based on the total materials cost of Kshs.532,950,990 and the proposed number of stalls to be constructed of six hundred and two (602), this translates to cost per stall of Kshs.906,132 excluding labour and supervision costs as compared to estimated all inclusive cost per stall of Kshs.264,678 and Kshs.395,887 for Karen and Ngong road markets respectively.

11.4 Incomplete Works

Physical inspection of stores carried out on 8 January 2019 revealed that the materials are yet to be utilized and management indicated that the construction works have stalled due to legal claim on the land on which the Ngong road furniture market was to be constructed leading to a potential loss of Kshs.532,950,990 incurred on procurement of materials. Further, no site handing over minutes have been provided to show that management had conducted due diligence and secured the land before committing public resources and exposing the public to loss of funds.

As a result, it is not possible to confirm that public funds were applied lawfully and in an effective way as required under Article 229(6) of the Constitution of Kenya 2010 and

that Article 232(1)(b) of the Constitution of Kenya 2010 was applied as required under law.

11.5 Unused Materials

Field inspection carried out in the month of January 2019 showed that materials worth Kshs.506,630,090 remain unused two (2) years after they were procured and supplied and are lying at NYS Headquarters yard at Ruaraka. No explanation has been provided for failure to utilize the materials.

In view of the foregoing, the propriety of the expenditure of Kshs.532,950,990 on the construction of both Ngong Road and Karen markets could not be ascertained.

12. Specialized Materials and Services - Supply of Cooking Fat to National Youth Service (NYS)

The statement of receipts and payments reflects a figure of Kshs.5,850,909,548 under use of goods and services, which as per note 5 of financial statements reflect a balance is Kshs.2,260,767,007 for specialized materials and services. Included in the figure is Kshs.36,288,000 paid to a contractor for supply of eight thousand four hundred (8,400) 20Kg tins of cooking fat to National Youth Service at a unit price of Kshs.4,320. examination of the payment voucher and the contract document revealed the following;

- 12.1** The Payment Voucher shows that the supplier was paid Kshs.36,288,000 for supply and delivery of eighty thousand four hundred (8400) 17kgs tins at a unit price of Kshs.4,320 thereby short delivery of 3kgs by 8400 tins (25,200Kgs) for a cost of Kshs.5,443,200.
- 12.2** Documents availed for audit showed that the delivery was made in the financial year 2016/2017. However, the supplier was not included in the list of pending bills disclosed in the financial statements for the period ended 30 June 2017. Consequently, it is not possible to establish the authenticity of the claim paid during the financial year 2017/2018 which was never declared in the previous period.
- 12.3** The Ministry entered and signed a contract with the supplier, a limited liability company whereas the actual supplier was a sole proprietor as per certificates of registration from the Registrar of Companies and Youth Access to Government Procurement Opportunities (YAGPO) and Business questionnaire form dated 11 November 2015, 20 January 2016 and 16 June 2017 respectively. No explanation was provided for the contradicting information.
- 12.4** The Ministry signed a contract for supply of twenty (20) kg tins of cooking fat at a unit price of Kshs.4320. However, the supply was made in quantities of seventeen (17) Kg tins at the same unit price resulting in a loss of Kshs.1,814,400.

12.5 The requisition from the Quarter Master dated 19 December 2016 shows six thousand nine hundred (6,900) tins of cooking fat were required while the approved quantity of the professional procurement opinion twenty-one thousand (21,000) tins resulting in an extra fourteen thousand one hundred (14,100) tins without requisition all valued at Kshs.60,912,000.

Consequently, the propriety of the expenditure of Kshs.60,912,000 on supply and delivery of cooking fat could not be ascertained as at 30 June 2018.

13. Supply and Delivery of Expired Chemicals at National Youth Service

A scrutiny of stocks records, labels and subsequent verification of Insecticides in stock at National Youth Service (NYS) Central Stores "A" revealed that between June and August 2017 the State Department procured and received one thousand seven hundred and fifty (1750) litres of expired Actellic which was manufactured in September 2014 with a shelf life of two (2) years (Expiry period September 2016) valued at Kshs.13,846,250. No explanation has been provided for this anomaly leading to loss of Kshs.13,846,250 worth of public funds and contravening Article 232(1)(b) of the Constitution of Kenya 2010 on economical, effective and efficient utilization of public resources.

14. Expired Stocks - White Spirit

The Ministry procured three hundred and fifty-seven (357) five litre tins of white spirit from a supplier at a unit price of Kshs.1,820 totaling Kshs.649,740. The items were received at the National Youth Service Stores on 26 June 2017 and all were still in the stores as at January 2019. Inspection of the stores revealed that the white spirit was manufactured in the year 2015 and had expired in the year 2018.

No reason has been provided for failure by the Management to utilize the procured items within the stipulated time leading to loss of Kshs.649,740 incurred on unutilized items.

15. Stock Movement between NYS Headquarters and Gilgil College

Stores records maintained at Gilgil College showed stock inward entries relating to food and rations that were received from Headquarters and captured in the station's stores records. However, the corresponding dispatch records at Head Office had not captured these movements in the stores records at the Headquarters. As a result, it was not possible to confirm how such items were procured, received at NYS Headquarters and dispatched to the Gilgil station:

Stores Issue and Receipts Voucher (S11 and S12 Nos.)	Item Description	Quantity	Value (Kshs.)
011845,011849,0353207,0353231	Army biscuits	810,000 packets	103,680,000
8779076,8779078,8779074,8779069,8779072	Baked beans	84,216 tins	11,874,456
8779199,8779643,8779644 and other 3 receipts without documentation (1488 bags)	Powdered milk	2,488 bags (25kgs)	
8779352,8779362,8779359,	Corned beef	60,624 tins	22,734,000

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Stores Issue and Receipts Voucher (S11 and S12 Nos.)	Item Description	Quantity	Value (Kshs.)
8779378,8779377,8779387	Canned pineapples	60,624 tins	10,487,952
8779651	Cooking fat	300 tins (17Kgs)	1,296,000
Total			150,072,408

Consequently, the accuracy and completeness of the stores records and in particular the expenditure on food and rations valued at Kshs.150,072,408 charged to specialized materials and services could not be confirmed.

16. Rentals of Produced Assets

The statement of receipts and payments reflects a figure of Kshs.5,850,009,548 under use of goods and services. Included in the figure is Kshs.528,405,650 relating to rentals of produced assets. The account balance includes Kshs.7,739,513 paid to a service provider for provision of helicopter services to the National Youth Services staff travelling to various destinations. A review of the quotations attached to these payments show that two of the three service providers were managed by the same person who submitted the quotations implying that the procurement process did not comply with Section 106(2)(b) of the Public Procurement and Assets Disposal Act 2015 which require that request for quotations shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three persons, unless it is not possible.

In addition, no contract signed between the service provider and the State Department has been provided for audit verification as required under Section 44(2)(f) of the Public Procurement and Assets Disposal Act 2015.

Further, the invoices billed and paid include an invoice for "Windsor" as part of the itinerary covered which was not in the approved itinerary that was requisitioned and approved by the Accounting Officer.

17. Supply and Delivery of Water Melons

Examination of documents maintained at Gilgil college relating to supply of goods revealed that an enterprise was contracted for supply of five thousand (5000) kilograms of water melons at a price of Kshs.100 per kilo all totaling to Kshs.500,000. The local purchase order was issued on 5 January 2016 approximately four (4) months before the enterprise was registered on 28 April 2016 through certificate of registration number BN/2016/421766.

As a result, it was not possible to determine how the non-existing firm was identified, contracted and paid Kshs.500,000 and if the procurement was done as required under Article 227(1) of the Constitution of Kenya 2010.

18. Acquisition of Assets

The statements of receipts and payments reflect a figure of Kshs.2,847,106,725 under acquisition of assets. Included in this balance is Kshs.1,052,626,086 for rehabilitation

of civil works as disclosed under note 9 to the financial statements. Analysis of sampled payment vouchers charged to the vote for rehabilitation of civil works revealed a charge of recurrent expenditure in respect of specialized materials and supplies, supply of training materials, supply of spare parts amounting to Kshs.255,390,101. No reallocation approvals were availed for audit review as required under Section 43 Public Finance Management Act 2012.

Further, included in the balance of Kshs.2,847,106,725 in respect of acquisition of assets is purchase of specialized plant and equipment totaling Kshs.647,863,150. However, the amount includes Kshs.647,863,150 recurrent expenditure in nature for specialized materials and services. Although this constitutes reallocation of funds from development vote to recurrent vote, no approvals in line with Section 43 of the Public Finance Management Act, 2012 were availed for audit verification.

No explanation has been provided for the failure to adhere to the budget or seek approval for reallocation of funds as required under Section 43 of the Public Finance Management Act, 2012.

19. Noncompliance with the budget at Gilgil College

Information availed for audit in respect of payments at Gilgil field station showed that during the year 2017/2018, the station received Kshs.610,648,119 being development and recurrent expenditure of Kshs.15,684,960 and Kshs.594,963,159 respectively. However, included in the recurrent expenditure of Kshs.594,963,159 is an amount of Kshs.4,000,000 incurred on communication supplies and services which had no approved budget. No evidence has been provided for audit verification to show that the reallocation was requested and approved as required under Section 43(1) of the Public Finance Management Act 2012.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

20. Hospitality Supplies and Services - Contracted Professional Services - Consultancy Services for Capacity Assessment And Rationalization of Public Service (CARPS) Programme

The State Department entered into a contract worth Kshs.130,095,828 on 14 July 2014 to undertake the capacity assessment and rationalization of public service. The

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contract was to run from 14 July 2014 to 31 October 2014. Although there is no evidence of contract extension, during the year, the consultant was paid Kshs.15,024,688 arising from three (3) contract price variations totaling to Kshs.26,788,808 that was granted on 16 December 2014 of Kshs.7,033,660 on 16 February 2015 of Kshs.15,024,688 and 24 February 2016. The total contract price variation was 20.6% which was above the 15% maximum price variation that was in effect then according to Public Procurement and Disposal Act Section 41(6) and Section 31 of Public Procurement and Disposal Act 2006 Regulations. The payment of Kshs.15,024,688 was supported by a Ministerial Tender Committee minutes for meeting held on 8 June 2016 which again approved the contract price variation which was seventeen (17) months after the initial price variation on 16 February 2015.

In the absence of the contract extension documents it is not possible to confirm the price variations have been done in line with the section 139(4)(d) that requires any price variations to be done within the period of the contract.

21. Specialized Materials and Services

21.1 Non-compliance with Section 114 of the Public Procurement and Assets Disposal Act 2015

The statement of receipts and payments reflects a figure of Kshs.5,850,909,548 under use of goods and services, included in the accounts balance is Kshs.2,260,767,007 for specialized materials and services. The figure includes Kshs.222,363,000 (sampled payment vouchers) for various supplies of goods as tabulated:

Product	Quantity	Unit Price	Amount (Kshs)
Corned beef	256,000	375	96,000,000
Corned beef	187,000	375	70,125,000
Cooking fat	8,400	4,320	36,288,000
Foam mattresses	5000	3,990	19,950,000
Total			222,363,000

The goods were procured through Mini Competition under contractual framework under Section 114(3)(b) of the Public Procurement and Assets Disposal Act 2015. However, no framework contract was produced for audit verification. In addition, no evidence has been provided to show that the bidders invited to the mini competition were under framework contract. Consequently, it was not possible to confirm the method for bidders identification, selection, and contracting for the supply of goods valued Kshs.222,363,000 was done in compliance with section 114(3) (b) of Public and Procurement Assets Disposals Act 2015 and complied with Article 227(1) of the Constitution of Kenya 2010.

Further, the stores record S.13 No. 8591799 used to receive the 187,000 tins of corned beef to central store at National Youth Service Headquarters was not dated making it difficult to match it with the delivery note and inspection and acceptance certificate.

21.2 Non-compliance with Section 44(2) (h) of the Public Procurement and Assets Disposal Act, 2015

The statement of receipts and payments reflects a figure of Kshs.5,850,909,548 under use of goods and services, included in the accounts balance is Kshs.2,260,767,007 for specialized materials and services. The figure for specialized materials and services include Kshs.156,353,460 paid for supply of goods as tabulated below:

Product	Quantity	Unit price Kshs.	Amount (Kshs.)
Pineapple in syrup	405,000	173	70,065,000
Pineapple in syrup	289,000	173	50,000,460
Cooking fat	8,400	4,320	36,288,000
Total			156,353,460

Examination of requisitions, tender evaluation committee minutes and inspection and acceptance certificates showed that the officer who made the requisition participated in tender opening, tender evaluation and award the entire process and chaired the inspection and acceptance committee which was a non-compliance with Section 44(2) (h) of the Public Procurement and Assets Disposal Act, 2015.

22 Non-compliance with Section 135 (1) of the Public Procurement and Assets Disposal Act, 2015

The statement of receipts and payments reflects a figure of Kshs.5,850,909,548 under use of goods and services, included in the accounts balance is Kshs.2,260,767,007 for specialized materials and services. Examination of sampled payment vouchers charged to the item code totaling to Kshs.101,141,400 showed that the State Department did not comply with Section 135(1) of the Public Procurement and Assets Disposal Act 2015 by entering into contract for supply and delivery of goods and services before expiry of the 14 days period after notification of award as tabulated below;

Items Supplied	Date Contract was Signed	No. of Days	No. of Days Due	Amount (Kshs)
NYS Logos for Shirts and Caps	28/02/17	13	1	15,435,000
White Socks	28/02/17	13	1	5,898,400
Webbing Equipment	28/02/17	13	1	10,010,000
Foam Mattresses	28/02/17	13	1	19,950,000
Sanitary towels	21/04/17	11	3	13,560,000
Cooking Fat	21/04/17	11	3	36,288,000
			Total	101,141,400

Consequently, it was not possible to confirm whether the expenditure of Kshs.101,141,400 was lawful and that funds were utilized in an effective manner as required under Article 229(6) of the Constitution of Kenya 2010.

23 Specialized materials and services - Provision of Consultancy Services for Event Management, Publicity and Mobilization

The State Department awarded a one (1) year contract to a service provider for provision of communication, research and audience analysis, public relations and event management for implementing the Communication/Media Strategy for the Ministry at a contract price of Kshs.139,905,976.

The terms and conditions of the contract provided that the Consultant shall not sub-contract any portion of the contracted services without the client's prior written consent. However, information availed for audit showed that the service provider engaged several other sub-contractors without prior approval as stipulated in the contract who were paid a total Kshs.5,211,440. No evidence has been provided to confirm that payments totaling to Kshs.5,211,440 made to subcontractors were approved as per the contract.

In addition, although Section 135 (3) of Public Procurement and Asset Disposal Act,2015 provides that the written contract shall be entered into within the period specified in the notification but not before fourteen (14) days have elapsed following the issuance of the letter of notification of award, the Accounting Officer signed and issued notification of award letter to the service provider on 20 July 2016 while the contract was signed 27 July 2016 being seven (7) days later which is contrary to the requirements of Section 135(3) of the Public Procurement and Assets Disposal Act 2015.

No satisfactory explanation has been provided by management for noncompliance with Section 135(3) of the Public Procurement and Assets Disposal Act 2015.

24 Contracted Professional Services - Provision of Public Relations Services

The State Department awarded a communication consultancy contract to a consultancy firm for an amount of Kshs.47,270,000 effective 12 January 2015 for a period of twelve months with an auto written notice which is against Public Procurement and Assets Disposal Act, 2015 Section 139(2). Examination of the Payment Voucher No.0739 dated 26 September 2017 and attached supporting documentation shows that Information availed for audit indicated that the service provider was paid Kshs.9,722,032 for second quarter invoice dated 6 May 2016 in respect of this service. However, examination of the documentation in support of the payment showed the following:

- 24.1** Contrary clause 2.3 of Special Conditions to the Contract-Amendments and supplements to clauses in the General Conditions to the Contract which stated the contract period was twelve (12) months starting 12 January 2015 and ending 12 January 2016 the service provider issued second quarter invoice dated 6 May 2016 approximately five (5) months after the scheduled expiry date of the contract period. No evidence was provided to show the contract period had been extended.

- 24.2 Clause 6.2 (b) of special conditions to the contract further outlined the contract price shall be paid in four (4) schedules/tranches which emphasized on condition that the payments shall be made upon submission of acceptable reports. However, no evidence has been provided to show that the second quarter report (as an agreed deliverable) paid for was inspected, accepted and approved for payment in line with Section 48 of Public Procurement and Asset Disposal Act, 2015.
- 24.3 Section 139 (2) of Public Procurement and Asset Disposal Act, 2015 provides that an Accounting officer of a procuring entity, on the recommendation of an evaluation committee, may approve the request for extension of contract that is accompanied by a certificate from the tenderer making a justification for such cost. However, no minutes or recommendation from the evaluation committee on the extension of the contract has been availed for audit verification.

25 Direct Procurement of Goods and Services at Mwatate Field Station

A total of Kshs. 18,604,950 was disbursed to Mwatate field station in form of recurrent AIE (Authority to Incur Expenditure). Out of this figure Kshs. 145,150 was paid in cash to the Station Commanding Officer for purchase of goods and services in cash contrary to Section 91 (1) of the Public Procurement and Assets Disposal Act, 2015 as follows;

	Kshs.
1. Supplies and production	100,000
2. Fungicides, insecticides and spray	228,000
3. Agricultural Material and small equipment	234,650
4. Maintenance of motor vehicles	200,000
5. Other fuels	60,000
6. Water and sewerage	40,000
7. Purchase of certified crop seeds	90,000
8. Agricultural Materials	<u>468,500</u>
Total	<u>1,451,150</u>

Consequently, there is non-compliance with Article 227(1) of the Constitution of Kenya 2010 which requires procurement for goods and services that be competitive.

26 Direct Procurement of Goods and Services Using Standing Imprests at Gilgil College

Payment voucher for imprests taken during the financial year 2017/2018 amounting to Kshs. 8,216,756 being standing imprest of Kshs. 400,000 issued on reimbursement basis for office use revealed that the station procures items through direct procurement over and above the minimum allowed threshold of Kshs. 30,000. No explanation has been provided for the non-compliance with Section 91(1) of the Public Procurement and assets Disposal Act, 2015 and Article 227(1) of the Constitution of Kenya 2010.

27 Procurement of Catering and Mobile Toilets Services at Gilgil College

The Gilgil National Youth Service College paid Kshs.2,330,000 to a service provider for provision of catering and mobile toilets for a one day cabinet secretary's meeting with Sacco members workshop. However, no documentation was availed for audit review to show how the service provider was identified and awarded the contract for the services. As a result, it was not possible to confirm whether the process was competitive as required under Article 227(1) of the Constitution of Kenya, 2010 and if the College received value for money on the expenditure of Kshs.2,330,000.

In addition, the expenditure was charged to account code 2211015 – specialized materials and services implying that the expenditure was not budgeted for under the correct account code being 2210800 - hospitality, supplies and services. No explanation or approval for reallocation has been provided to justify the reallocation of funds.

Further, the letter of invitation listed the attendees from various stations whose attendance registers have not been provided in support of the expenditure of Kshs.2,330,000.

As a result, it was not possible to confirm whether the expenditure was lawful and if public funds were spent in an effective manner as required under Article 229(6) of the Constitution of Kenya, 2010.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for [Conclusion of Internal Controls, Risk Management and Governance /Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

28 Poor Maintenance of Stores Records

A physical verification of stores carried out in the stores in January 2019 revealed that the State Department procured and stored four (4) types of Chemicals at National Youth Service (NYS) stores whose details in regard to date of delivery, quantity delivered, unit price, unit of issue, value among others could not be verified as there were no records maintained. The items are as listed below;

S/No.	Type of Chemical	Manufacturer	Expiry Date	Quantity
1.	Alpha Insecticide	Osho	12/2017	308 Litres
2.	Karate 2.5 WG Insecticide	Syngenta	12/2016	18 Kilogrammes
3.	Acaricide Ex-Kupe	Osho-Sulphur Mills, India	06/2016	960 Millilitres
4.	Henkel's pool Chlorine/Pool latrine	Henkel	06/2016	1220 Kilogrammes

Further, scrutiny of the chemicals revealed that they had expired having exhausted their useful life of two (2) years as shown in the table above. No explanation has been given for failure to utilize the resources before expiry or dispose them off.

29 Store Records

29.1 Fire Extinguishers

Inspection and verification of stores records carried out in the Month of January 2019 showed that the State Department procured twenty-six (26) foam fire extinguishers from three (3) different suppliers in the month of June 2017 as at a cost of Kshs.895,200 but of which ten (10) of them were issued to Mechanical and Transport Board (MTB) leaving a balance of sixteen (16) in the stores.

However, the following anomalies were observed;

- i. The actual number of the extinguishers in stores physically was twelve (12) units against the respective stock card which had sixteen (16) resulting to unexplained variance of four (4).
- ii. The fire extinguishers were indicated to have been manufactured in 2008. It is however not clear why the Ministry opted to procure fire extinguishers which had lasted for nine (9) years at the point of purchase yet the indicated useful life of the items was estimated to be seven (7) years from the date of manufacture.
- iii. Some of the fire extinguishers in the stores had disintegrating nozzles resulting from rust an indication of poor maintenance and therefore cannot be used.
- iv. The labels attached to the Foam extinguishers clearly indicated that these extinguishers required to be serviced at least once in a year using only products and spare parts from the Manufacturer. However, there was no evidence of maintenance attached to the products to show there was compliance with the manufacturer's maintenance instruction.
- v. Examination of Stock ledger card and Stock Control Card indicated that ten (10) fire extinguishers were issued to Mechanical and Transport Board (MTB) on 29 November 2016, Seven (7) months before they were procured and received in stores.

29.2 Calcium Hypochlorite 65% Chlorine

Inspection of Central Stores at National Youth Service (NYS) revealed that the State Department procured and received seven thousand (7000) Kilogrammes of Chlorine at a unit price of Kshs.975 with a total cost of Kshs.6,825,000 on 7 June 2017. The respective Stores Ledger card indicated that between 8 June 2017 and 4 November 2017 only one thousand six hundred (1600) Kilogrammes had been issued leaving a balance of five thousand four hundred (5400) Kilogrammes in the store which had not been issued since November 2017.

The labels attached to the holding containers indicated that the Chlorine had shelf life of two (2) years and therefore expired on 25 April 2019.

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 (Cash Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the State Department's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

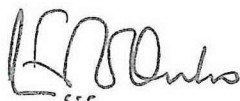
Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities 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 International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent in accordance with ISSAI 30 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

10 June 2019