

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL YOUTH SERVICE MECHANICAL AND TRANSPORT FUND (MTF) FOR THE YEAR ENDED 30 JUNE 2018 – STATE DEPARTMENT OF PUBLIC SERVICE, GENDER AND YOUTH AFFAIRS

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## REPORT ON THE FINANCIAL STATEMENTS

### Disclaimer of Opinion

I have audited the accompanying financial statements of the National Youth Service Mechanical and Transport Fund set out on pages 1 to 9, which comprise the statement of financial position as at 30 June 2018, 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 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. Late submission of financial statements

The financial statements ought to have been submitted not later than three (3) months after end of the financial year (as at 30<sup>th</sup> September) to the Auditor – General for audit but were submitted on 26<sup>th</sup> October, 2018 contrary to Section 81(4)(a) of the Public Finance Management Act, 2012.

#### 2.0 Accuracy and Completeness of Financial Statements

##### 2.1 Unsupported Financial Statements Adjustments

The financial statements submitted on 26<sup>th</sup> October 2018 was subsequently revised and a new set issued and submitted together with the responses to draft audit response received on 26<sup>th</sup> March 2019. However, various adjustments processed between the two sets of financial statements were not made available for audit review as tabulated below;

<b>Account description</b>	<b>Balances as per 26 October 2018 Financial Statements (Kshs.)</b>	<b>Balances as per 8 April 2019 Financial Statements (Kshs.)</b>	<b>Difference (Kshs.)</b>

Hire of equipment	51,106,902	55,589,912	4,483,010
Personnel allowances	0	13,161,230	(13,161,230)
Maintenance expenses	98,150,456	0	98,150,456
Repairs of machines and vehicles	0	637,377	(637,377)
Office equipment	0	229,223	(229,223)
Administration	0	74,350	(74,350)
Receivables from NYS	1,361,855,934	1,334,105,603	27,750,331
Receivables from external operations	187,126,801	191,906,306	(4,779,505)
Plant and machinery	3,476,830,795	3,460,298,753	16,532,042
Clients deposits B/F	96,646	40,996	55,650
Embu County	3,329,750	8,896,520	(5,566,770)
Accumulated surplus/ Deficit	(898,982,396)	(797,289,882)	(101,692,514)

Under the circumstance, the accuracy and completeness of the financial statements as at 30 June 2018 could not be confirmed.

## 2.2 Unexplained and Unreconciled Errors and or Variances in the Statement of Financial Position

The following errors were noted on the statement of financial position; -

- i) The total current assets on the statement of financial position casts to Kshs.2,176,796,855 while the figure reflected in the statement of financial position is Kshs.2,306,618,736 resulting to an unexplained variance of Kshs.129,831,881.
- ii) The total assets figure on the statement of financial position casts to Kshs.7,542,137,249 while the figure as per the statement of financial position is Kshs.7,671,763,130 resulting to unexplained variance of Kshs.129,831,881.
- iii) The total assets on the statement of financial position of Kshs.7,542,131,249 does not agree with total liabilities of Kshs.7,671,963,130 resulting in unexplained variance of Kshs.129,831,881.
- iv) The comparative figure on the statement of financial position does not balance as the net liabilities cast to Kshs.7,812,406,554 while the total assets cast to Kshs.7,806,515,544 resulting in unexplained variance of Kshs.5,891,000.
- v) The statement of cash flows reflect a balance of Kshs.348,440,699 in relation to net cash flows from operating activities which differs with the casted balance of Kshs.325,949,890 resulting in unreconciled variance of Kshs.22,490,809.

- vi) The comparative figure of Kshs.1,600,372 described increase/decrease in difference in the previous year has been omitted in the statement and hence the opening balance figure does not agree with the audited balance as at 30<sup>th</sup> June 2017.
- vii) The total casted figure for debit side of the trial balance of Kshs.8,863,649,035 does not agree with the reported figure of Kshs.8,724,297,618 resulting to unexplained variance of Kshs.139,351,417.
- viii) Cash and bank balance of Kshs.214,012,630 as per note 1 of the financial statements does not agree with the casted figure of Kshs.211,056,630 resulting to unexplained variance of Kshs.2,956,000.
- ix) As per note 3 of the financial statements the comparative non-current assets balance of Kshs.4,779,547,213 does not agree with the casted balance of Kshs.5,779,547,212 resulting to unexplained variance of Kshs.1,000,000,000.
- x) The fund balances for the year under review as per note 5 of the financial statements of Kshs.8,351,764,013 and Kshs.8,409,522,779 brought forward from 2016/2017 financial year do not agree with the casted balances of Kshs.8,434,951,013 and Kshs.1,137,522,779 respectively resulting to unexplained variance of Kshs.83,187,000 and Kshs.7,272,000,000.
- xi) As per note 7 of the financial statements, sundry creditors balance of Kshs.8,579,223 do not agree with the casted balance of Kshs.18,579,223 resulting to unexplained variance of Kshs.10,000,000.
- xii) As per note 9 of the financial statements, the comparative client's deposits of nil balance does not agree with the casted balance of Kshs.4,499,460 resulting to unexplained variance of Kshs.4,999,460.
- xiii) As per note 10 of the financial statements the comparative client's deposits (Kerra Marakwet) balance of Kshs.16,785,260 do not agree with the casted balance of Kshs.16,807,260 resulting to unexplained variance of Kshs.22,000.

As a result, the completeness and accuracy of the statement of financial position remains in doubt.

In view of the foregoing, it has not been possible to ascertain the accuracy and completeness of the financial statements as at 30 June 2018.

### **3 Cash and Cash Equivalent**

The cash and cash equivalents balance of Kshs.214,012,630 as at 30 June 2018 includes long outstanding reconciling items dating back to the year 2016 amounting to

Kshs.2,202,585 in respect of Kenya Commercial Bank Current Account No.1128674548. No explanation has been provided for failure to clear the long outstanding items from the books.

As a result, the accuracy and completeness of cash and cash equivalents balance of Kshs.214,012,630 as at 30 June 2018 could not be confirmed.

#### **4 Non-Current Assets**

The statement of financial position as at 30 June 2018 reflects total non-current assets balance of Kshs.5,365,334,394 which include an amount of Kshs.3,460,298,753 relating to plant and heavy machinery. However, the Fund's management has not valued the plant and heavy machinery for financial reporting purpose since inception. The total non-current assets balance of Kshs.5,365,334,394 as at 30 June, 2018 is not, therefore, fairly stated under the circumstances.

In addition, it was indicated in the report for 2015/2016 that, the non-current assets movement schedule under Note 3 and the statement of financial position reflected a net book value of Kshs.6,263,076,866.57 while the computed figure using appropriate rates showed a balance of Kshs.6,366,028,631.52. The resulting variance of Kshs.102,951,764.94 has not been analyzed or explained to date.

Further, and as previously reported in 2015/2016, the accumulated depreciation brought forward as at 1 July 2016 of Kshs.2,178,510,682 included unsupported adjustments of Kshs.3,662,814.25 relating to plant and heavy machinery and unaccounted for depreciation of Kshs.94,168,883. No documentation has been provided in support of these adjustments to date.

In view of the foregoing, the accuracy of non-current assets brought forward balance of Kshs.6,263,076,867 as at 1 July 2016, of Kshs.5,779,547,213 as at 30 June 2017 and the closing balance Kshs.5,365,334,394 as at 30 June 2018 cannot be confirmed.

#### **5 Non-Current Liabilities Sundry Creditors Reclassification**

The statement of financial position reflects as at 30 June 2018 under non-current liabilities sundry creditors balance of Kshs.8,579,223. However, the balance was previously classified as a current liability. Further, no documentation has been provided to justify its reclassification to long term liability. In addition, the balance has been outstanding for over four years and there is no clear justification as to why the amounts have not been settled.

#### **6 Costs of Operations**

The statement of financial performance reflects revenue amounting to Kshs.333,692,946 (2016/2017- Kshs.235,386,086) and total operating expenses of Kshs.588,276,178 (2016/2017 - Kshs.483,547,363) for the year ended 30 June 2018. However, the management of the Fund has only included depreciation and amortization expenses, bank charges and maintenance expense in the reported total operating expenses of

Kshs.588,276,178 (2016/2017- Kshs.483,547,363) and excluded all other costs and expenses in relation to the operations of the Fund. These excluded costs and expenses include undetermined value of personnel emoluments, spares and other repairs – Kshs.126,163,421 (2016/2017 - Kshs.1,156,942,596) and fuel and lubricants- Kshs.892,123,498 (2016/2017 Kshs.776,524,309) all totaling to Kshs.1,018,286,919 (2016/2017- Kshs.1,933,466,905). These costs directly relate to the operation of the Fund and should have been matched to the revenue in order to arrive at the correct amount of loss for the period.

Consequently, the reported loss for the period of Kshs.254,583,232 (2016/2017 - Kshs.248,161,278) and the cumulative deficit of Kshs.898,982,396 as at 30 June 2018 are not fairly stated.

## **7 Non – Current Liabilities Sundry Creditors**

The statement of financial position reflects non-current sundry creditors balance of Kshs.8,579,223 as at 30 June 2018. However, the balance has been long outstanding for over five years and there is no clear justification as to why the amounts have not been settled.

In consequence, the long outstanding sundry creditors may attract penalties and or interest charges and risk of court suits.

## **8 Long Outstanding Unsupported Domestic and Commercial Debts**

### **8.1 Domestic Debts**

As disclosed under Note 4(a) to the financial statements, gross domestic debts of Kshs.1,334,105,603 (Kshs.429,523,206 for the year 2016/2017) as at 30 June 2018 includes balance brought forward of Kshs.299,503,490. The balance brought forward include unsupported Director General National Youth Service debt of Kshs.18,380,963.34 in respect of financial year 2013/2014 and an amount of Kshs.124,600,000 borrowed from the Fund's Account at Kenya Commercial Bank Moi Avenue by the Ministry of Devolution and Planning in the same financial year. Information available indicates that there was no documented policy or authority given to borrow from the Fund. During the year 2016/2017, an amount of Kshs.58,839,952 was repaid leaving a balance of Kshs.429,523,206. No proper justification has been provided for non-settlement of the balance of Kshs.635,899,313 (2016/2017 - Kshs.429,523,206) all totaling to Kshs.1,065,422,519 as at 30 June 2018.

### **8.2 Commercial Debts**

Disclosed under Note 4(b) to the financial statements are commercial debts totaling Kshs.187,126,801 made up of Tana Road Project debt of Kshs.173,326,190 and other debts of Kshs.13,800,611 all being more than four years old. No provision for impairment has, however, been made against the long outstanding debts even though the recovery

is clearly uncertain. Under the circumstances, the commercial debts balance of Kshs.187,126,801 as reported in the financial statements is not fairly stated.

Under the circumstances, the accuracy, completeness and recoverability of the domestic and commercial debts cannot be ascertained.

## **9 Hire of Equipment Income**

The financial statements for Mechanical and Transport Fund are prepared in accordance with International Public Sector Accounting Standards (IPSAS) accrual basis. The statement of financial performance reflects an income of Kshs.351,337,186. Included in this amount is Kshs.55,589,912 as income from hire of equipment and heavy machines. However, information presented for audit indicated that invoices amounting to Kshs.18,491,360 were for services delivered in the financial year 2016/2017 and the invoices raised in 2017/2018 financial year. This contradicts the matching concept under accrual basis of accounting and no explanation has been provided for the omission.

In the circumstances, the accuracy of hire of equipment revenue totaling Kshs.55,589,912 for the year ended 30 June 2018 could not be ascertained.

## **10 Hire of Small Vehicles/Lorries**

The statement of financial performance reflects an income of Kshs.351,337,186. Included in this is Kshs.265,727,084 as income from hire of small vehicles/ lorries. The following anomalies were observed in relation to this revenue;

- i) The amounts comprise of domestic hire and hire of small equipment. The schedule provided in support of domestic hire indicated that the income is a receivable from all the NYS Units which used Mechanical Transport Fund machinery and motor vehicles. However, no contract or service agreements were provided in support of the billed amounts or detailed basis of the billing.
- ii) The Mechanical and Transport Fund has been invoicing itself and as at 30<sup>th</sup> June 2018 the total outstanding debt was Kshs.146,339,884. The nature of services offered and billed have not been supported neither is it clear who is supposed to pay for the service rendered if any and it has not been explained why the self-consumed services have not been expensed rather than recognizing them as debt.
- iii) The total income on domestic hire amounting to Kshs.265,727,084 which is the total figure given on hire of small vehicles/lorries excluded an amount of Kshs.588,360.

Consequently, the accuracy and validity of revenue on hire of small vehicles/lorries balance of Kshs.265,727,084 for the year ended 30 June 2018 could not be ascertained.

## **11 Direct Procurement of Spares**

During the year under review, the fund procured spare parts of Kshs.355,279 through direct procurement contrary to the requirements of Section 91 of the Public Procurement and Assets Disposal Act, 2015. No explanation has been provided for the noncompliance.

## 12 Unauthorized Lending

The NYS – Mechanical Transport Fund was established under Legal Notice No. 15 of 30<sup>th</sup> January 2011. The purpose of the Fund is to ensure sufficient funds needed for maintenance, repair and service of the Motor vehicles, plant and equipment is achieved. However, an amount of Kshs.1,114,827,220 was borrowed by the State Department for Public Service and Youth without appropriate authority. The State Department is yet to refund Kshs.635,899,313 to date and the amounts have not been reflected in the financial statements for the State Department for the year ended 30<sup>th</sup> June 2018.

In consequence, the assets of the NYS-MTF are understated casting doubt on the recoverability of the debt of Kshs.635,899,313 as at 30 June 2018.

## 13. Sustainability of Okoa Abiria Programme

During the year under review, the Mechanical Transport Fund started Okoa Abiria Programme. The programme was to alleviate transport crisis in some high population density areas within the city during the peak periods by charging Kenya Shillings twenty (20) to the passengers using the service. The charge is standard.

However, the following was observed in relation to the programme:

- i) The programme had twenty seven (27) buses earmarked for its implementation.
- ii) As at the time of audit only nine (9) out of the twenty seven (27) buses were still operational while eighteen (18) had broken down and were grounded.
- iii) The programme was started without a budgetary provision to fund the maintenance of the buses and other operational costs.
- iv) The service was subsidized service but no subsidy funds have been received for the project.

Under the circumstances, the sustainability of the Okoa Abiria Programme is highly uncertain.

## 14. Fund Balance – Unsupported Adjustments

As reported in the previous year, the fund balance of Kshs.8,450,439,839 as at 30 June 2018 comprise of various adjustments passed in the previous years all of which have not been supported to date as highlighted below:

Year ended	Amount Kshs.	Description
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30 June 2014	39,807,203.75	Prior year adjustment error
30 June 2015	26,860,668.96	Prior year adjustment error
30 June 2016	6,951,553.18	Prior year adjustment error
30 June 2016	136,013,262	Changes in Net Book Value
30 June 2017	1,488,772	Prior year adjustment

Further, the balance includes an amount of Kshs.327,993,842 reflected as addition to the fund balance during the year 2016/2017 and Kshs.205,419,622 in respect of earlier years related to grants received from the State Department of Public Service and Youth in form of stocks. However, the amounts are not adjusted to reflect the stock consumption over the years or any impairment that may be necessitated by changes in fair value.

Under the circumstances, the accuracy and completeness of the Fund balance amount of Kshs.8,450,439,839 as at 30 June 2018 cannot be confirmed.

## 15. Inventory

As previously reported, the statement of financial position reflects an inventory balance of Kshs.436,772,316 (2016/2017-Kshs.503,774,082) as at 30 June 2018. However, part of the stock balance relates to spares procured in year 2014/2015 financial year amounting to Kshs.175,780,240 which have had no movement or consumption during the year 2017/2018. This is a possible indicator of obsolescence of the stock but no provision for impairment has been made against the balance.

Consequently, the inventory balance of Kshs.436,772,316 as at 30 June 2018 is not fairly stated.

## 16. Unresolved prior year issues

The following issues reported in the 30 June 2017 audit report remained unresolved as at 30 June 2018;

### 16.1 Costs of Operation

Statement of financial performance reflects revenue amounting to Kshs.235,386,086 and total operating expenses of Kshs.483,547,363 for the year ended 30 June 2017. However, the management of the Fund has included depreciation and amortization expenses and bank charges only in the reported total operating expenses of Kshs.483,547,363 and excluded all other costs and expenses in relation to the operations of the Fund. These excluded costs and expenses include undetermined value of personnel emoluments, spares and other repairs- Kshs.1,156,942,596 and fuel and lubricants- Kshs.776,524,309 all totalling Kshs.1,933,466,905. These costs directly relate



to the operation of the Fund and should have been matched to the revenue in order to arrive at the loss for the period.

Consequently, the reported loss for the period of Kshs.248,161,278 and the cumulative deficit of Kshs.644,399,164 as at 30 June 2017 are not fairly stated.

## **16.2 Non-Current Assets**

The statement of financial position as at 30 June 2017 reflects total non-current assets balance of Kshs.5,779,547,213 which include an amount of Kshs.3,736,740,990 relating to plant and heavy machinery. However, the Fund's management has not valued the plant and heavy machinery for financial reporting purpose since inception. The total non-current assets balance of Kshs.5,779,547,213 as at 30 June, 2017 is not, therefore, fairly stated under the circumstances.

In addition, it was indicated in the report for 2015/2016 that, the non-current assets movement schedule under Note 3 and the statement of position reflected a net book value of Kshs.6,263,076,866.57 while the computed figure using appropriate rates showed a balance of Kshs.6,366,028,631.52. The resulting variance of Kshs.102,951,764.94 has to date not been analyzed or explained.

Further, and as previously reported in 2015/2016, the accumulated depreciation brought forward as 1 July 2016 of Kshs.2,178,510,682 included unsupported adjustments of Kshs.3,662,814.25 relating to plant and heavy machinery and unaccounted for depreciation of Kshs.94,168,883. No documentation has been provided in support of these movement to date.

Under the circumstances, the accuracy of non-current assets brought forward balance of Kshs.6,263,076,867 as at 1 July 2016 and the closing balance of Kshs.5,779,547,213 as at 30 June 2017 can not be confirmed.

## **16.3. Domestic Debts**

As disclosed under Note 4(a) to the financial statements, gross domestic debts of Kshs.429,523,206 includes balance brought forward of Kshs.299,503,490. The balance brought forward include unsupported Director General National Youth Service debt of Kshs.18,380,963.34 in respect of financial year 2013/2014 and an amount of Kshs.124,600,000 borrowed from the Fund's Account at Kenya Commercial Bank Moi Avenue by the Ministry of Devolution and Planning in the same financial year. Information available indicates that there was no documented policy or authority given to borrow from the Fund. During the year under review, an amount of Kshs.58,839,952 was repaid leaving a balance of Kshs.429,523,206. No proper justification has been provided for non-settlement of the outstanding balance of Kshs.429,523,206 as at 30 June 2017.

## **16.4. Commercial Debts**

Disclosed under Note 4(b) to the financial statements are commercial debts totalling Kshs.438,787,714 made up of Tana Road Project debt of Kshs.424,987,103 and other

debts of Kshs.13,800,611 all being more than three years old. No provision for impairment has, however, been made against the long outstanding debts even though the recovery is clearly uncertain. Under the circumstances, the commercial debts balance of Kshs.438,787,714 as reported in the financial statements is not fairly stated.

#### **16.5. Non-Current Liabilities Sundry Creditors**

The statement of financial position reflects as at 30 June 2017 under non-current liabilities sundry creditors balance of Kshs.8,579,223. The balance was previously classified as a current liability. No documentation has been provided to justify its reclassification to long term liability. In addition, the balance has been outstanding for over four years and there is no clear justification as to why the amounts have not been settled.

#### **16.6. Statement of Cash flows**

The statement of cash flows reflects under cash flows from operating activities what has been described as “increase/decrease in differences” figure of Kshs.1,600,372 and a comparative figure of Kshs.47,310,811. These figures have not been supported with any documentation. Consequently, the accuracy of the statement of cash flows cannot be confirmed.

### **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.

### **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.

## **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 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ 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 money is applied in an effective manner.

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 matter described in the Basis for Disclaimer of Opinion section of my report, the conclusion arrived in the report on compliance and Lawfulness and the con, 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 with limited assurance as to 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 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, my responsibility is to consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution.

I am independent of 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**

**16 May 2019**